

Meeting: IESBA CAG
Meeting Location: New York
Meeting Date: March 9, 2020

Agenda Item H-1 (Updated)

Report Back – Non-Assurance Services

Objectives of Agenda Item

1. To note the report-back on the September 2019 CAG discussion.
2. To encourage CAG member organizations to respond to the Exposure Draft (ED), [Proposed Revisions to the Non-Assurance Services Provisions of the Code](#).

Project Status and Timeline

3. The NAS project is a prioritized commitment in the IESBA's [Strategy and Work Plan, 2019-2023](#) and is responsive to regulatory stakeholders' and the Public Interest Oversight Board's (PIOB) broad concerns about auditor independence when a NAS is provided to an audit client. The objective of the project is to ensure that all the NAS provisions in the Code's International Independence Standards (IIS) are robust and of high quality for global application, thereby increasing confidence in the independence of audit firms.
4. The project, which was approved in September 2018, was informed by the [feedback](#) on a Briefing Paper, [Non-Assurance Services – Exploring Issues to Determine a Way Forward](#), that was discussed at four global roundtables, as well as advice from the IESBA Consultative Advisory Group (CAG).
5. Appendix 1 to this paper provides a history of previous discussions with the CAG on this topic.

NAS ED

6. The IESBA approved the NAS ED which sets out proposed revisions to the NAS provisions in December 2019. The ED was released in January 2020 and is open for comment through **May 4, 2020**. **CAG Member Organizations are strongly encouraged to submit a comment letter to the IESBA by the comment deadline.**
7. A summary of the responses to ED will be presented to the CAG at its September 2020 meeting. The IESBA anticipates finalizes the NAS project by December 2020.

NAS Webinar

8. The IESBA is undertaking targeted outreach and other activities to promote awareness of the NAS ED and to encourage feedback from all stakeholders. In this regard, the IESBA will host a free global webinar on March 17, 2020 to explain key aspects of the NAS proposals. **Individuals within CAG Member Organizations are encouraged to [register](#) to join this webinar and invite others within their network to register as well.**

9. The ED includes an Explanatory Memorandum (EM) with questions for respondents and summarizes the IESBA’s rationale for its proposals.¹ The ED forms part of the CAG reference materials.

September 2019 CAG Discussion

10. Below are extracts from the draft minutes of the September 2019 CAG meeting² and an indication of how the Task Force/IESBA has responded to CAG Representatives’ comments.

Matters Raised	Task Force/ IESBA Response
PROHIBITION ON NAS THAT CREATE SELF-REVIEW THREAT	
<p>Mr. James wondered whether there is a need to clarify the meaning of self-review threat in the context of providing a NAS to an audit client. He questioned whether the concept of “self-review threat” is well understood and consistently dealt with across firms and network firms. He suggested that the proposals include application material to explain the thought process as to how a firm or a network firm will determine whether a NAS will create a self-review threat.</p>	<p>Point accepted.</p> <p>The wording of the proposed requirement was revised (see paragraph R600.14 of the ED).</p> <p>In addition, new application material is proposed in paragraph 600.11 A2 of the ED to help firms and network firms determine whether a NAS will create a self-review threat (see the discussion about identifying a self-review threat in paragraphs 28 to 36 of the EM).</p>
<p>Mr. Dalkin shared perspectives based on his experience in the public sector. He supported the Task Force’s approach to provide specific guidance as part of the NAS proposals. He agreed with the Task Force that the increased specificity will drive consistency in how firms and network firms decide on whether to provide a NAS to an audit client.</p>	<p>Support noted.</p>

¹ To facilitate stakeholder review of the NAS proposals:

- Comments have been included alongside each paragraph in the ED to indicate the derivation of the proposed provisions, i.e., whether they are from particular paragraphs in the extant Code or represent new material.
- A staff-prepared Mapping Table, [Comparison of Extant Code to the NAS Proposals](#), supplements the ED to assist readers in their review of the proposals.

² The September 2019 CAG minutes will be approved during the March 2020 IESBA CAG meeting.

Matters Raised	Task Force/ IESBA Response
<p>Ms. McGeachy-Colby reiterated a prior comment regarding the reference to the reasonable and informed third party (RITP) test in proposed application material for identifying self-review threats for audit clients that are public interest entities (PIEs). She noted that as drafted, the proposals call into question the relative importance of the RIPT test for audit clients that are not PIEs.</p>	<p>Points accepted.</p> <p>During the meeting, Mr. Fleck pointed Ms. McGeachy-Colby to the drafting refinements that emphasize that the RITP is always relevant in “identifying, evaluating and addressing threats”.</p>
<p>Ms. Meng wondered about who makes the determination about whether an entity is a PIE or a non-PIE. She questioned whether there is a risk that a firm’s conclusions from using the RITP test may differ if that firm determines that an entity is not a PIE.</p> <p>For advice and NAS that might create advocacy threats, Mr. Dalkin questioned why the Task Force did not adopt an approach similar to its proposal for NAS that might create a self-review threat.</p>	<p>In finalizing its proposals, the IESBA deliberated further and agreed that:</p> <ul style="list-style-type: none"> • When the audit client is a PIE, stakeholders have heightened expectations regarding the firm's independence. • These heightened expectations are relevant to the RIPT test used to evaluate a self-review threat created by providing a NAS service to an audit client that is a PIE. • Where the provision of a NAS to an audit client that is a PIE creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level. <p>This is reflected in paragraphs 600.13 A1 to 600.13 A2 of the ED.</p>
<p>Mr. Bradbury wondered whether the proposed text should clarify who is responsible for applying the RITP test (i.e., whether it is the firm, the audit engagement partner or the individual within the firm handling the NAS engagement).</p>	<p>Point accepted.</p> <p>Ms. Jules explained that the concept of the RITP test is described in paragraph 120.5 A4 of the extant Code, which note that the test is a consideration by the professional accountant.</p>
<p>PROVIDING ADVICE AND RECOMMENDATIONS</p>	
<p>Mr. Dalkin supported the Task Force’s proposals and agreed that the threat created from providing advice and recommendations to audit clients varies based on specific facts and circumstances.</p>	<p>Support noted.</p>

Matters Raised	Task Force/ IESBA Response
<p>Ms. Robert noted that the proposed application material relating to providing advice and recommendation is circular and suggested that the Task Force clarify it.</p> <p>Ms. McGeachy-Colby added that some SMPC representative are anxious about the potential implications of the new application material, especially in relation to the provision of tax advice.</p>	<p>Points accepted.</p> <p>The proposed application material in the paragraphs 600.12 A1 of the ED note that providing advice and recommendations might create a self-review threat. It notes that:</p> <ul style="list-style-type: none"> • The determination of whether a self-review is created involves a consideration of 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 PIE. • If the audit client is a PIE, the advice or recommendation is prohibited. • The ED also includes application material to indicate when a self-review threat will not be created with respect to providing advice and recommendations (e.g., see paragraphs 604.12 A2 of the ED).
<p>Mr. Yurdakul questioned the enforceability of the current language in the Code that requires the firm to be satisfied that management takes responsibility for the advice and recommendations.</p>	<p>Point accepted.</p> <p>As discussed in paragraphs 65 to 67 of the EM, the extant paragraphs relating to the prohibition on assuming management responsibilities are repositioned from Section 600 to Section 400, giving them increased prominence.</p> <p>The proposed text in paragraph R400.14 of the ED generally reflects the language in extant paragraph R600.8. It states, “When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management.”</p> <p>The extant words “To avoid assuming a management responsibility” are not included in the NAS proposals because they were viewed by some stakeholders as weakening the requirement.</p>

Matters Raised	Task Force/ IESBA Response
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE (TCWG)	
<p>Mr. Hirai questioned the difference between the intended meaning of the terms “obtain concurrence” and “pre-approval” which were both used in the proposed text.</p>	<p>Point accepted.</p> <p>The NAS proposals use the terms “concur” and “obtain concurrence” which are already used elsewhere in the extant Code (e.g., extant paragraph R400.84).</p> <p>The word pre-approval is avoided (see paragraphs R600.19 to 600.19 A1 of the ED).</p>
<p>Mr. Hirai suggested that the Task Force coordinate its activities with the IAASB.</p>	<p>Point accepted.</p> <p>During the meeting, Mr. Fleck explained that the coordination was being led by the Fees Task Force as they too are progressing proposals to enhance firm communication with TCWG.</p>
<p>Mr. Nicholson suggested that the Task Force strengthen the application material relating to communication with TCWG about NAS matters to audit clients that are not PIEs by avoiding the words “<i>might be appropriate</i>” in the statement that reads “<i>Communication with those charged with governance might be appropriate... .</i>”</p>	<p>Point accepted.</p> <p>The proposed text is revised and is set out in paragraph 600.17 A1 of the ED which now reads, “In the case of audit clients that are not public interest entities, paragraphs 400.40 A1 and 400.40 A2 are relevant to a firm’s communication with those charged with governance in relation to the provision of non-assurance services.”</p>
MATERIALITY	
<p>Mr. Dalkin expressed support for having stricter provisions for audit clients that are not PIEs in circumstances when a firm or network firm provides certain types of tax and corporate finance services for which the effectiveness of the advice depends on a particular accounting treatment or presentation; and the audit team has reasonable doubt as to the appropriateness of that accounting treatment or presentation.</p>	<p>Support noted.</p>
<p>Ms. Robert noted that AE has heard concerns that the proposal to withdraw materiality in determining whether a firm can provide a NAS to an audit client that is a PIE will be a significant issue for SMPs.</p> <p>Ms. Yazar suggested that the Code move away</p>	<p>Points accepted.</p> <p>Mr. Fleck explained that the Task Force carefully reviewed the breach provisions in the Code and concluded that they are appropriate to deal with the situations in question.</p> <p>The EM highlights the IESBA views with respect</p>

Matters Raised	Task Force/ IESBA Response
<p>from referring to materiality, which in her view is a subjective concept.</p> <p>Ms. Robert wondered whether the Task Force had enough evidence to support its position. She pointed out that the withdrawal of materiality would create complexities in the context of group audits, and that there might be practical challenges (e.g., dealing with breaches).</p>	<p>to materiality and includes specific questions for respondents.</p>
<p>MATTERS RELATING TO SPECIFIC TYPES OF NAS</p>	
<p>Mr. Hansen highlighted the Task Force’s proposal relating to the prohibition on providing tax services involving marketing, planning, or opining in favor of a tax treatment that may not be allowable under applicable tax laws and regulations. He suggested that the proposal be reworded so that it could have more general applicability.</p>	<p>Point accepted.</p> <p>The proposed text is revised and applies for a tax service as well as a tax transaction (see paragraph R604.4 of the ED).</p>
<p>Mr. Nicholson provided several drafting refinements to the subsection relating to internal audit to align it more closely to the IIA’s internal audit framework.</p>	<p>Point accepted.</p> <p>In finalizing the proposals, the Task Force carefully considered all the drafting suggestions, many of which are reflected in proposed Subsection 605 of the ED.</p>
<p>With respect to the topic of new and emerging NAS arising from advances in technology, Ms. Robert expressed support for the Task Force’s proposal to defer dealing with the topic as part of a future IESBA project on Technology.</p>	<p>Support noted.</p>
<p>Mr. Dalkin wondered about investing the time in modernizing the Code to deal with new and emerging NAS services given the pace of change in technology-enabled services.</p>	<p>Point noted.</p> <p>This comment was been referred to the Technology Working Group and has been considered in finalizing their final Phase 1 report.</p>
<p>MATTERS RELEVANT TO ASSURANCE ENGAGEMENTS OTHER THAN AUDITS AND REVIEWS</p>	
<p>Mr. Hansen questioned whether the Task Force proposals scoped out direct engagements.</p> <p>Ms. Robert noted the need for consequential amendments to Part 4B of the Code and suggested that the IESBA progress the NAS and the Alignment of Part 4B with ISAE 3000 (Revised) projects concurrently.</p>	<p>Points accepted.</p> <p>Mr. Fleck explained that most of the proposed revisions are to Part 4A of the Code which applies to audit and review engagements. He added that the appropriate conforming/ consequential amendments to Part 4B of the Code will be made to preserve the existing alignment between Parts</p>

Matters Raised	Task Force/ IESBA Response
	4A and 4B of the Code. As noted in paragraphs 63 to 64 of the EM, the ED includes proposed consequential amendments to Section 950 (as revised). ³
Mr. Yurdakul cautioned against the introduction of a proposed description of “public interest assurance engagement,” noting that the new term might create confusion about the term public interest.	Point accepted. The IESBA did not support the Task Force’s proposal which involved the inclusion of a description of “public interest assurance engagement” in the Code. The material is replaced with new application material to explain the heightened expectations relating to assurance clients that are PIEs (see paragraphs 950.9 A1 to 950.9 A2 of the ED).

Matter for Consideration

11. Representatives are asked to note the report back.

Material Presented – FOR IESBA CAG REFERENCE PURPOSES ONLY

ED, [Proposed Revisions to the Non-Assurance Services Provisions of the Code](#) www.ethicsboard.org/publications/proposed-revisions-non-assurance-services-provisions-code

³ On January 6, 2020, the IESBA released the final pronouncement, [Alignment of Part 4B of the Code to ISAE 3000 \(Revised\)](#), (Part 4B Revised) with changes to make the independence provisions in Part 4B of the Code consistent with the revised assurance terms and concepts in the International Auditing and Assurance Standards Board’s (IAASB’s), International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

Project History

Project: NAS

Summary

	CAG Meeting	IESBA Meeting
Information gathering/ Discussion	<u>March 2018</u>	<u>March 2018</u>
Project commencement, including: <ul style="list-style-type: none"> • Consideration of feedback from roundtables • Approval of project proposal 	<u>September 2018</u>	<u>June 2018</u> <u>September 2018</u>
Development of proposed international pronouncement (up to exposure)	<u>March 2019</u> <u>September 2019</u> March 2020	<u>December 2018</u> <u>March 2019</u> <u>June 2019</u> <u>September 2019</u> <u>December 2019</u>