

Meeting: IESBA CAG

Meeting Location: New York

Meeting Date: September 10-11 2013

Agenda Item

H

Non-Assurance Services

Objective of Agenda Item

1. To obtain CAG Representatives' views on key matters identified in a project proposal addressing the topic of non-assurance services (NAS), to be presented for approval at the September 2013 IESBA meeting.

Background

2. Pursuant to a strategic review in early 2012, the IESBA added the following work stream to its 2012 work plan:

Non-assurance services—The IESBA will consider whether the Code should include additional restrictions on auditors providing non-assurance services to their audit clients and whether the use of materiality as the basis for prohibiting certain non-assurance services remains appropriate. If materiality continues to be appropriate, the IESBA will consider whether the Code should contain guidance for applying it. If certain non-assurance services will continue to be permitted, the IESBA might also consider whether they should be subject to pre-approval by those charged with governance, restricted in size in relation to the audit fee, or publicly disclosed. The IESBA expects to begin discussions in the last quarter of 2012.

3. To start up the new work stream, the IESBA considered at its December 2012 meeting a project proposal to review the NAS provisions in Sections 290¹ and 291² of the Code to ensure that they continue to support a rigorous approach to independence for assurance services, particularly audits of financial statements.
4. While IESBA members generally agreed to the objective of the project, a number of them expressed concerns regarding the proposed scope of the project. It was noted in particular that the scope appeared quite extensive and seemed to suggest a reconsideration of all NAS, a broader scope than the Independence I project,³ which was a significant project in itself. Amongst other matters, it was suggested that the Task Force should, instead, carefully assess, through consideration of benchmarking, whether there are specific areas that may need to be revised, and then focus on whether any specific requirements or guidance may be necessary.

¹ Section 290, *Independence – Audit and Review Engagements*

² Section 291, *Independence – Other Assurance Engagements*

³ The Independence I project led to a number of enhancements to the Code with respect to professional accountants performing assurance engagements, including extension of the independence requirements for audits of listed entities to all public interest entities, and strengthening of a number of provisions related to the provision of NAS to audit clients.

5. Rather than carrying out a full benchmarking exercise, which would have been resource intensive and time-consuming, the Task Force agreed on the more effective approach of carrying out an open survey regarding national provisions that go further than those in the Code. The main interest was in finding out about those national provisions that cover NAS not already addressed in the Code, prohibit services that the Code currently permits or restricts, or restrict services that the Code currently does not restrict.
6. In addition to finding out about areas not addressed by the Code, the Task Force focused the survey on the following five key areas of NAS covered by the Code:
 - Assuming management responsibility
 - Preparing accounting records and financial statements
 - Valuation services
 - Taxation services
 - Internal audit services
7. The survey was not limited to public interest entities (PIEs) but also covered entities that are not PIEs. It also had broad geographic coverage, targeting the G-20 plus a small number of additional jurisdictions (the Netherlands, Norway, Israel, Morocco, and Tunisia) where there have been recent developments or which have particularly large proportions of small- and medium-sized entities (SMEs)/small and medium practices (SMPs). The survey was issued in March 2013.
8. At its June 2013 meeting, the IESBA considered the survey findings. Broadly, the main outcomes of the survey are as follows:
 - Jurisdictions are in line with the Code with respect to most of the Code's provisions.
 - Approximately half of the jurisdictions surveyed specified more restrictive provisions concerning taxation, valuation and internal audit services, mostly due to local laws and regulations.
 - A significant number of jurisdictions do not have emergency provisions for bookkeeping or taxation services.
 - With respect to materiality, responses varied in terms of services to which materiality may be applied, if at all.
9. Based on its consideration of the survey findings, the IESBA agreed the following:
 - There is no case for reviewing the Code's positions on taxation, valuation and internal audit services at this time as the Code's "threats and "safeguards approach continues to be appropriate. These areas should therefore not be included in the scope of the project.
 - The Code, however, may benefit from clarification of the guidance concerning "management responsibilities" and bookkeeping services that are "routine and mechanical," for consistency in application. In addition, there would be benefit in reconsidering the appropriateness of the emergency exception provisions for bookkeeping and taxation services. Accordingly, the project proposal should focus on these areas.
10. The IESBA also agreed to the development of a paper as a communication vehicle to raise awareness of the Code's approach to NAS, emphasize the robustness of the Code's NAS

provisions, highlight potential supplementary approaches to enhance the “threats and safeguards” approach and increase the visibility and transparency of the Code’s relevant provisions (NAS paper). The NAS paper will also cover taxation, valuation and internal audit services.

11. For information, an outline of the NAS paper, which will be considered at the September 2013 IESBA meeting, is provided in Agenda Item H-2. The CAG will have an opportunity to provide input on a draft of that paper at the March 2014 CAG meeting.
12. Subject to the IESBA’s approval of the project proposal, the Task Force will be aiming to present a draft of any proposed changes to the Code for approval for exposure at the April 2014 IESBA meeting. The Task Force also will be aiming to present a final draft of the NAS paper for approval at the July 2014 IESBA meeting.

Matter for CAG Consideration

1. Representatives are asked to provide feedback on the project proposal.

Material Presented – CAG Paper

Agenda Item H-1 Non-Assurance Services Project Proposal

Agenda Item H-2 NAS Paper Outline

Material Presented – IESBA CAG REFERENCE PAPERS

Analysis of
Responses to March
2013 NAS Survey <http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%205-A%20-%20Non%20Assurance%20Services%20-%20Issues%20Paper.pdf>