

Non-Assurance Services—Report-Back

March 2014 CAG Discussion

Below are extracts from the minutes of the March 2014 CAG meeting,¹ and an indication of how the project Task Force or IESBA has responded to CAG Representatives' comments.

Representatives' Comments	Task Force/IESBA Response
DELETION OF EMERGENCY EXCEPTION PROVISIONS	
Mr. Hansen agreed with the proposal, noting that this demonstrated that the Board takes independence seriously. He was of the view that the exception provisions provided an opportunity for misuse, accordingly the proposal went in the right direction. Mr. James agreed, noting that IOSCO had raised a concern in that regard in the past.	Support noted.
Ms. Blomme noted that there are practical issues of timing regarding requests for implementation of the emergency exception provisions and that if the Board was intending to withdraw them, it should do so on the basis that when their use in specific exceptional circumstances would be justified and needed, such exceptional authorization can be obtained from an appropriate regulatory authority and that implementation can be swift.	Ms. Spargo noted that the Board's understanding is that the provisions are almost never used. Mr. Kwok noted that based on the Board's research, it is not aware that such provisions have been used except in the U.S. as a result of the severe market disruption caused by the September 11, 2001 terrorist attack. He added that the fact that the exceptions would not be in the Code would not preclude a regulator from granting an exemption, and that this would not be contrary to the Code.
Mr. Kottvedgaard asked the CAG if there was any feedback concerning the report-back, specifically concerning the Board's position on internal audit, taxation and valuation services.	Mr. Kwok noted that the IESBA did consider these areas when researching the issues for the project. It agreed that the specific issues addressed in the proposals are those which needed priority attention. He noted that the Board planned to consider other areas in the position paper with respect to the topic of non-assurance services later on. The position paper has since been deferred pending a review of safeguards by the Board.

¹ The minutes were approved at the September 2014 IESBA CAG meeting.

MANAGEMENT RESPONSIBILITIES – DELETION OF THE TERM “SIGNIFICANT”	
Mr. Hansen agreed with the removal of the term “significant,” but wondered why paragraph 290.162 needed to list all the different types of resources (“...control of human, financial, physical, technological and intangible resources”) as opposed to simply stating “control resources.”	Ms. Spargo explained that the Task Force had endeavored to balance providing sufficient examples to make the guidance useful and providing too many that would make the list appear exhaustive.
Mr. James noted a recent trend of accounting firms acquiring consulting firms to increase the range of their service offerings. He expressed a concern that the proposed description of management responsibility may not alleviate a threat to independence when the firm does most of the work and management simply acknowledges the work performed.	Ms. Spargo noted that the Board had already considered this issue and the proposed changes to the Code addressed this further on, as she would explain later in the session.
Mr. Dalkin commented that the term “management responsibility” should be well-defined to avoid circumstances where management does not have sufficient competence in accounting matters to take full responsibility for the financial statements and the auditor therefore assumes management responsibility.	<p>Ms. Spargo acknowledged the issue, noting that it is more common among SMEs where the client relies to a significant extent on the auditor for the accounting and bookkeeping services. She noted that as a public member, her concern has always been at the PIE end of the market and that her concern was lesser at the other end of the market. While this would not imply that there is no issue at the SME end of the market, she felt that the emphasis should be at the PIE end. She noted that in the SME part of the market, the reality is that the client will generally seek the auditor’s assistance and advice regarding accounting matters.</p> <p>Mr. Kwok noted that bookkeeping services are prohibited by the Code for all PIEs except in very limited circumstances, and that such services can only be performed for non-PIEs when they are of a routine and mechanical nature. He emphasized that the proposal focuses not on a decision by management but on a decision by informed management. Accordingly, this strengthened the provisions, thus making the Code more robust.</p>

MANAGEMENT RESPONSIBILITIES – EXAMPLES	
Mr. Baumann expressed concern that the proposed guidance states that the examples are “generally considered” to be management functions. He noted that it would be difficult to identify circumstances where the activities would not be considered to be a management function.	<p>Point accepted.</p> <p>The term “generally” was removed from the examples as the Task Force agreed the list of examples were management responsibilities.</p>
Mr. Baumann also suggested removing “taking responsibility for” from the examples concerning preparation of the financial statements and the concept of designing, implementing and maintaining internal controls.	<p>Point not accepted.</p> <p>The phrase “taking responsibility” was not removed as the Task Force agreed that for non-PIEs, preparing financial statements would not be considered a management responsibility provided certain safeguards were in place, including the robust requirements of paragraph 290.165. However, the acceptance of responsibility for the financial statements would be a management responsibility.</p>
Messrs. Baumann and Dalkin both suggested that the guidance pertaining to providing advice should not be located beneath the examples, as providing advice in relation to some of the examples could be considered a management function.	<p>Since the meeting, the guidance pertaining to advice was moved to 290.164.</p>
Referring to paragraph 290.162, Mr. Koltvedgaard noted that there may be a conflict if the term “significant” is removed, yet the guidance allows the auditor to draft the financial statements.	<p>Ms. Spargo noted that the removal of the term “significant” pertains to making decisions regarding leading an entity and making decisions concerning specified resources. The removal of the term would strengthen the Code as all judgment of the auditor is removed concerning management decisions pertaining to those respective activities.</p>
MANAGEMENT RESPONSIBILITIES – ADMINISTRATIVE SERVICES	
Mr. Baumann suggested that the example of executing insignificant transactions should not be included as an administrative service as it could be misinterpreted. He suggested that if it remained within the guidance, the provision should be rephrased in terms of “assisting in executing administrative tasks.”	<p>Point accepted.</p> <p>Since the meeting, the Task Force removed the example of “executing insignificant transactions” as an administrative service for clarification purposes.</p>
Ms. Fukushima was of the view that the Board	<p>Point accepted.</p>

should consider independence in appearance. A party that receives an invitation from the auditor to a client event, which is included as an example, may create a threat to independence in appearance.	Since the meeting, the Task Force removed the example concerning sending notices for client meetings, as, it is not in the extant Code and not a clarifying edit.
Mr. Hansen was of the view that the examples within the administrative services guidance could create threats to independence and the guidance currently stated that “such services would not generally create a threat to independence.” Accordingly, he suggested that the Task Force reconsider the guidance.	Point taken into account. Since the meeting, the Task Force has edited the guidance to read as follows: “Providing such services does not generally create a threat to independence. However, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. In addition, the firm shall be satisfied that the services would not result in assuming a management responsibility for the client and the requirements set forth in paragraph 290.165 is met.”
Messrs. Dalkin and Hansen both agreed that that the terms “administrative” and “clerical” could have different meanings to different people.	Point considered. Administrative services are described in the guidance as “routine or mechanical,” which further states that such services require “little to no professional judgment.” While many terms can have different meanings to different people, the Task Force believes the description to be appropriate.
INFORMED MANAGEMENT	
Mr. Dalkin wondered how management could take responsibility for a technical accounting matter if they do not have the accounting competence to evaluate the matter.	Ms. Spargo drew a parallel to audit committees, noting that it is unlikely that they would be as knowledgeable about accounting matters as the auditor. Nevertheless, they would make a general assessment of the relevant matters. She added that management would need to have someone who could make such an assessment. In this regard, she noted that the proposals contained an element of the auditor determining whether there is someone within management who could make that assessment.
Mr. Bluhm expressed a concern that the proposal will be a challenge for the SME market. He	Ms. Spargo agreed, noting that there is a lesser concern at the SME end of the market. She added

wondered what public interest would be served in the SME presenting a set of financial statements to a lender. He felt that it would be better to focus on what the appropriate safeguards would be at that end of the market.	that the public interest would not be served by forcing SMEs to hire two separate accounting firms. She felt that there was a need to strike a balance at that end of the market.
Mr. James suggested that in paragraph 290.165, the “suitable individual” “should understand” as opposed to the current draft which states “would understand.”	Point considered. The Task Force considered the issue and concluded that term “would” creates a stronger tone. Further, the Task Force wanted to ensure clarity in that this statement is not a requirement, lest “should” be confused with “shall.”
Mr. Dalkin suggested that the auditor’s report could state that the auditor is independent although the auditor has prepared the financial statements. Mr. Bluhm disagreed, expressing a preference to focus on safeguards. Ms. de Beer cautioned about creating two different classes of auditors as it would not serve the profession to create two levels of independence. Mr. Hansen and Ms. Lang agreed with Ms de Beer.	Comment noted. Changes to an audit opinion cannot be proposed by the Ethics Board.
Ms. Blomme noted that the Code already has two levels of independence for PIEs and non-PIEs. She noted that in Europe, there is no prohibition with respect to management responsibility for non-PIEs but safeguards. For PIEs, however, the rules are more demanding than the Code, so the approach is different. It might therefore appear that in the Code the public interest aspect for non-PIEs is overstated. Mr. Baumann agreed with Ms. Blomme’s assessment regarding the two levels of independence with respect to PIEs and non-PIEs.	Mr. Kwok explained the definition of a PIE in the Code, noting that PIEs have a large number and wide range of stakeholders. An auditor may not prepare financial statements or provide bookkeeping services for a PIE, except in very limited situations. Further, any services provided by an auditor for a non-PIE must be routine or mechanical and management must be informed as to the services and take responsibility for any services.
Mr. Hansen inquired as to why approval of non-assurance services by those charged with governance is not being investigated as it would be beneficial to have an independent view from TCWG. Mr. Waldron agreed.	Ms. Spargo noted that this requirement is included in many jurisdictions and the Task Force would consider the suggestion further. Mr. Kwok agreed, noting that independence is a joint responsibility for the auditor and TCWG. He added that there is a possibility also of looking at safeguards under the proposed review of safeguards in the Code under the SWP.

ROUTINE OR MECHANICAL	
Mr. Koltvedgaard noted that for a sole practitioner, there may not be another engagement team to provide bookkeeping services as suggested in the safeguards.	The Board will consider this when reviewing the safeguards as part of its new work stream on this topic.