

Non Assurance Services (NAS)¹ – Summary of Significant Matters Raised in Global Roundtables, Working Group Assessments and Proposals

I. Background

1. In response to concerns expressed by some stakeholders and the Public Interest Oversight Board (PIOB), the IESBA launched a non-assurance (NAS) initiative in December 2017 to explore issues relating to the permissibility of NAS provided to audit clients under the IESBA's [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).² The NAS topic was featured as a pre-commitment in the IESBA's consultation paper on its proposed Strategy and Work Plan, 2019-2023, [Elevating Ethics in a Dynamic and Uncertain World](#) (2019-2013 SWP). The feedback on the SWP will be considered at the September 2018 IESBA meeting.
2. In order to facilitate a multi-stakeholder dialogue in a dynamic setting aimed at exploring how best to address the issues the NAS Working Group (WG) has identified, the IESBA hosted a series of [global roundtables](#) in Washington, DC, U.S.A. (June 11, 2018); Paris, France (June 15, 2018); Tokyo, Japan (July 12, 2018); and Melbourne, Australia (July 16, 2018).³
3. The May 2018 Briefing Note, [Non-assurance Services – Exploring Issues to Determine a Way Forward](#) (the Briefing Note) summarized the NAS provisions in the Code, and NAS issues that some regulatory stakeholders and the Public Interest Oversight Board identified, in particular in relation to permissibility, during the IESBA's finalization of the Code. The Briefing Note also sought roundtable participants' views on the following questions:

The NAS Briefing Note was prepared by the Working Group, and incorporated input from the Board, as well as the:

 - IFAC SMPC (March 2018);
 - IESBA CAG (March 2018);
 - IESBA-NSS (May 2018); and
 - Forum of Firms (May 2018).

 - Should the IESBA's objective be global harmonization, or an approach that accommodates individual national laws and regulations?
 - Should the Code retain the concepts of materiality and significance as qualifiers in determining whether a firm or network firm can provide a NAS to an audit client?
 - Should the distinction between public interest entities (PIEs) and non-PIEs be retained? Or, is there merit in having the same global ethics and independence provisions for all entities?
 - Should the Code include a list of unconditional NAS prohibitions⁴ ("i.e., a blacklist")?
 - Are there new and emerging services that should be addressed in the Code?

¹ NAS in this paper refers to the term "non-assurance services" as used in the Code. In some jurisdictions the term "non-audit services" is used in referring to matters similar to those being considered under this initiative. For example, the term "non-audit services" is used in the UK to cover any service that does not form part of the audit engagement (i.e., both "non-assurance" and "assurance services" other than an audit). The terms "non-audit services" and "non-assurance services" are not defined terms in the Code.

² In April 2018, the IESBA [released](#) a completely rewritten Code of Ethics for professional accountants which includes substantive revisions and clarifications about key ethics and independence topics, including NAS. For example, the new Code includes substantive revisions to assist firms and network firms better apply the conceptual framework to identify, evaluate and address threats to independence that might be created when firms or network firms provide NAS to audit clients.

³ The Melbourne roundtable was hosted jointly by the Australian Accounting Professional & Ethical Standards Board (APESB) and the New Zealand External Reporting Board (XRB).

⁴ The term "**unconditional** NAS prohibitions" is used in this paper to refer situations in which a prohibition is not qualified by a specific circumstance or condition (e.g., materiality considerations or whether the audited entity is a PIE).

- Should the Code include additional requirements relating to auditor communication with those charged with governance (TCWG)?
- What disclosure requirements about NAS should be included in the Code?
- Should the IESBA establish fee restrictions in relation to the provision of NAS to audit clients?
- Should the IESBA address concerns about the business models of the major firms?

II. Purpose of this Paper

4. The purpose of this paper is to generate discussions with the IESBA Consultative Advisory Group (CAG) and the Board at their September 2018 meetings. It provides a high level summary of the views expressed by roundtable participants, and does not seek to identify, or address every view expressed by them. The paper also summarizes the WG's assessments and proposals which form the basis for the project proposal in **Agenda C-2**. The remainder of the paper is organized as follows:

- Section III - Summary of Roundtable Views Relevant to WG's considerations
 - (a) About the Roundtables
 - (b) General Policy Objective for IESBA – Global Harmonization Versus Accommodation of Jurisdictional Circumstances in National Laws and Regulations
 - (c) Materiality and Determining Whether to Provide NAS to Audit Clients
 - (d) PIEs and non-PIEs Versus Same Provisions for all Entities
 - (e) Unconditional Prohibitions ("Blacklist")
 - (f) New and Emerging Services
 - (g) Requirements for Auditor Communication with TCWG
 - (h) NAS Disclosure Requirements
 - (i) Fee Restrictions in Relation to NAS, Including "Fee Caps"
 - (j) Concerns about Firms' Business Models
- Section IV – Input from the Fees Working Group
- Section V – WG Assessments and Proposals
 - (a) Matters for Consideration
 - (b) Matters that will not be Pursued Further
- Section VI – Supporting Analysis, Including Benchmarking
- Section VII – Consideration of Project Proposal and Timeline
- Appendix 1 – Analysis of Roundtable Participants
- Appendix 2 – Summary of Provisions in the Code that Apply When Providing NAS to Audit Clients

III. Summary of Roundtable Views Relevant to WG's Considerations

A. About the Roundtables

5. About 150 senior-level delegates participated in the roundtable events. They represented a wide range of stakeholder groups, including investors; public sector representatives; preparers; TCWG; national standard setters; regional and international organizations; and representatives of the accountancy profession (both those in public practice and in business). Observers included regulators and audit

oversight authorities, PIOB members and staff, the IESBA CAG Chair, certain members of the CAG and International Auditing and Assurance Standards Board (IAASB) members.

6. Each of the roundtables consisted of a short plenary session to introduce the topic and provide contextual information for each NAS issue. The plenary session was followed by a breakout session with participants assigned to two groups, in which the questions in the Briefing Note were discussed. Roundtable participants reconvened after the breakout sessions to be briefed on the main takeaways from the discussions in each group.
7. Appendix 1 to this paper provides an overview of the extent of participation categorized by stakeholder groups in each of the four roundtables. Information about each roundtable, including the list of roundtable participants; slides used for the plenary session; agenda materials discussed; and the list of participants for each breakout group is available on the IESBA's [website](#).⁵
8. The discussions at each roundtable were lively and participants were fully engaged. While there were areas where participants from all stakeholder groups held similar views, for some issues, the perspectives were diverse. The discussions confirmed that there is merit to revisiting the NAS provisions in the Code now, in particular to deal with issues relating to permissibility. The discussions also highlighted:
 - The complexity of the various NAS issues;
 - The importance that should be placed on finding a balanced approach to respond to actual and perceived concerns about the robustness of the NAS provisions in Code; and
 - The need to ensure that the provisions in the Code remain both proportional and globally operable.

B. General Policy Objective for IESBA – Global Harmonization Versus Accommodation of Jurisdictional Circumstances in National Laws and Regulations

9. At each of the roundtables, there was considerable discussion about what the focus of the IESBA's general policy objective in setting standards for NAS should be. There was general agreement that there would be considerable benefit in achieving a common set of high-quality global ethics and independence standards that apply to audit firms that provide NAS to their clients. For example, at all of the events, there was a consensus view among all categories of stakeholders that the IESBA NAS provisions are very useful, in particular in terms of providing definitions and descriptions of specific types of services that might be provided to clients.
10. There was a view that having a well-established and recognized set of globally operable NAS provisions would be helpful to ensure consistent application in practice and would reduce the complexity involved in navigating and analyzing different sets of NAS provisions across jurisdictions. Firm participants strongly supported retaining a policy objective that sought to harmonize NAS provisions, noting that it increased the prospect of a consistent approach across different firms and jurisdictions. However, some participants questioned whether an objective of seeking to establish robust harmonized NAS provisions is achievable given the disparate, and at times conflicting, nature of the existing national laws and regulations across jurisdictions.
11. Notwithstanding this reservation, roundtable participants, in particular investors and regulators, believed that the IESBA is best positioned to take a leadership role towards achieving global harmonization of NAS provisions, while ensuring that those provisions are robust and at a principles level. In this regard, the IESBA was cautioned against adjusting the provisions in the Code to accommodate specific jurisdictions' needs.
12. Some participants suggested that as a matter of adoption policy for the Code more broadly, the IESBA could allow jurisdictions to tailor the provisions in the Code to meet their specific jurisdictional

⁵ www.ethicsboard.org/roundtables-2018

circumstances provided that these “add-ons” do not undermine the NAS provisions in the Code and are no less stringent.

13. On one hand, some roundtable participants (in particular, firms) believed that a hybrid approach which sets out general “principles-based” NAS provisions, supported by guidance that is relevant to the specific type of NAS, would be ideal. Those who held this view, in particular attendees at the Washington DC and Paris roundtables, noted that the Code already provides such a hybrid approach.
14. On the other hand, some roundtable participants, in particular regulators and some investors in Washington DC and Paris, believed that NAS provisions are clearer and more robust when they include unconditional prohibitions. At the Washington DC roundtable, the PIOB representative expressed the view that the exceptions to certain requirements in the Code are confusing and undermine the related requirement. For example, reference was made to:
 - Paragraph R600.10⁶ of the Code which contains an exception to the requirement that prohibit firms and network firms from assuming management responsibilities in certain circumstances; and
 - Paragraph R601.7 of the Code which contains an exception to the prohibition on firms or network firms providing accounting and bookkeeping services of a routine or mechanical nature for divisions or related entities of an audit client that is a PIE.

It was suggested that the exceptions described above should be withdrawn.

15. Roundtable participants also commented that:
 - The resolution of other issues, in particular those relating to materiality, might also prove relevant when determining the general policy objective for the NAS provisions in the Code.
 - In some jurisdictions, there are laws and regulations (as well as political factors) that may add additional complexities in terms of how NAS provisions are applied. For example, a participant with a public sector perspective noted that in some jurisdictions (e.g., in the US), national requirements, laws or regulations in some cases contradict the provisions set out in the Code.

C. Materiality and Determining Whether to Provide NAS to Audit Clients

16. Roundtable participants’ views about whether the Code should retain materiality as “qualifier” in determining whether firms can provide a NAS to audit clients were divided. Some respondents believed that:
 - (a) It is appropriate to retain materiality (or some similar concept) to cater for those circumstances where the firm does not consider that the provision of a NAS raises unacceptable threats to independence in fact or appearance. However, it was noted that if the concept of materiality is retained, additional guidance should be included in the Code to:
 - Explain how the IESBA believes the concept should be applied in the context of the Code more broadly.
 - Clarify how firms and network firms should apply judgments about materiality in the context of compliance with the provisions in the Code in order to achieve consistent application of NAS provisions across different firms.
 - Develop a better link between the description of materiality and requirement to use the concept of a reasonable and informed third party (RITP) test that is described in the

⁶ International Independence Standards, Part 4A – Independence for Audits and Review Engagements, Section 600, *Provision of Non-assurance Services to an Audit Client*

conceptual framework.⁷ Most roundtable participants were of the view that firms should consider the perspective of a RITP when making judgments about materiality.

- (b) The term materiality should not be used in the Code and that a different term should be introduced that would lower the threshold at which threats would be regarded as acceptable (e.g., “trivial and inconsequential”). There was also a view that:
- The inclusion of the concept of materiality in the NAS provisions gives rise to a loss of independence in appearance and is, therefore, detrimental to investors’ and other users’ confidence in the audit.
 - Some firms and network firms misuse or abuse “materiality” to justify providing NAS that should not otherwise be provided to audit clients.
 - The application of the concept of materiality as a qualifier for providing NAS to audit clients is subjective and leads to inconsistency in practice.
- (c) Wherever a self-review threat is created by providing a NAS to an audit client, the firm should not be allowed the flexibility to apply the concept of materiality in determining whether to perform that NAS. Those who expressed this view contended that no safeguards are capable of effectively addressing such a self-review threat.
17. Those who sought more guidance in the Code about the concept of “materiality” pointed out that the term was used in different ways. For example, it was noted that in Section 600, application material describes materiality in the context of audits of financial statements, but also includes materiality as an example of a factor for evaluating threats. There were questions about whether the Code should be expanded to better explain how firms and networks firms are required to make judgments about whether threats created by providing a NAS to an audit client would be “material” (i.e., other than at an acceptable level) to compliance with the fundamental principles and to independence (as opposed to whether the outcome of the NAS would be “material” to the financial statements).
18. In general, regulators and investors were supportive of removing materiality as a consideration in determining the permissibility of providing NAS to audit clients, and some expressed support for the suggestions in subparagraphs 16(b) and 16(c). Firm participants commented that if the concept of materiality is removed from the NAS provisions in the Code, it will be necessary to include additional guidance about how immaterial independence breaches should be handled.

D. PIEs and non-PIEs Versus Same Provisions for all Entities

19. Roundtable participants’ views were divided about whether the NAS provisions in the Code that apply to audits of PIEs should continue to differ from those that apply to auditors of non-PIEs. Some participants argued in favor of retaining different sets of NAS provisions – the approach currently taken in the Code. Other participants were of the view that the NAS provisions in the Code should be the same for all entities irrespective of their size or the nature of their business, and whether they are PIEs/non-PIEs, or listed/unlisted. Those who are of this view contend that there is no justification for having different provisions for different entities. They also argued that having different requirements is confusing and undermines the confidence that investors and other place in audits and the accountancy profession more broadly.
20. It was suggested that exploring the PIE/non-PIE issue involves a consideration of two policy issues: (a) the purpose of an audit, and (b) the extent of the public’s interests in the entities. There was a wide

⁷ The concept of the RITP is described in Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, Section 120, *The Conceptual Framework*, paragraph 120.5 A4.

range of views about these two policy issues. For example, some roundtable participants suggested that:

- The NAS provisions in the Code should focus on PIEs because PIEs give rise to the greatest public interest.
- Small- and medium-sized entities (SMEs) are major drivers of most national economies and it is, therefore, in the public interest that the Code should facilitate their development. There was a view that extending NAS provisions that apply to audits of PIEs to audits of SMEs would impose unnecessary costs on them.
- The approach taken by investors has changed and is continuing to evolve. As a result, investors do not decide to invest on the basis of whether an entity is a PIE or not, or whether an entity is listed or not listed, but rather based on the nature of its business.
- Consideration should be given to other ways of differentiating between types of entities. For example, such differentiation could be based on:
 - Whether the entity has chosen to access the capital markets; or
 - Whether the entity's characteristics are relevant to the assessment of the threat to auditor independence.

21. In relation to the suggestion to consider other ways to differentiate types of entities, the following were suggested as different categories for the IESBA's consideration:

- Listed entities;
- Large private entities;
- Financial and Insurance entities;
- Entities that act in a fiduciary capacity;
- Entities that accept deposits from the public;
- Private equity entities;
- Public sector entities - such as health and educational institutions;
- Charities and other not-for-profit entities; and
- Owner-managed entities.

22. It was also suggested that in considering whether the Code should continue to include different NAS provisions for PIEs and non-PIEs, the IESBA should bear in mind that:

- The number of listed entities in many jurisdictions is declining (which indicates that by going private or avoiding a listing altogether, some entities are able to avoid the requirements on PIEs).
- There is a possibility that, if regulatory requirements become too burdensome, some SMEs may decide not to have an audit (where that option is available).

23. More broadly, some roundtable participants suggested that the definition of PIE that is included in the Code should be reviewed to better reflect new ways of raising capital, including through crowd funding.

E. Unconditional Prohibitions ("Blacklist")

24. There was also a clear view that, to be effective, prohibitions should be carefully defined and supported by appropriate application material. Roundtable participants generally agreed that if NAS prohibitions are unclear, or not carefully articulated and supported with application material, those prohibitions are unlikely to be consistently and effectively applied. For these reasons, the predominant view expressed

was that having a “blacklist” would not lead to consistent application, and therefore should not be pursued.

25. Roundtable participants’ discussions about materiality and PIE/non-PIE issues are also relevant (see Sections III, C and D).

F. New and Emerging Services

26. There was also an extensive discussion about the approach the IESBA should take to ensure that the Code continues to remain relevant for new and emerging services as well as those might be provided in the future. While roundtable participants did not provide examples of other types of NAS that should explicitly added to the NAS provisions in the Code:

- There was a view that the IESBA should clarify whether the independence provisions should apply when providing certain types of service (e.g., Agreed Upon Procedures).
- It was noted that the provision of NAS in an era of evolving business models and advancing technologies was blurring the line between professional services and business relationships.

27. In relation to the latter point, roundtable participants noted that it was important for the IESBA to review the provisions in the Code that apply to professional accountants in public practice (Part 3⁸), and the International Independence Standards (Parts 4A and 4B) to determine whether revisions or clarification are needed, in particular, those relating to custody of client assets (Section 350⁹), and business relationships (Section 520¹⁰).

28. More broadly, roundtable participants generally agreed that:

- The IESBA should continually monitor developing trends to identify new and emerging practices and in order to determine whether the Code should be revised.
- It will not be possible for revisions to the Code to keep up with the pace of the changes to technologies that might give rise to new and emerging services.
- The fundamental principles and general principles in the Code remain applicable, but it is necessary for the IESBA to establish processes by which it can provide guidance about the ethical implications of new and emerging services in a timely manner. Similarly, it was generally felt that the provisions in the conceptual framework for identifying, evaluating and address threats are relevant and applicable to these new and emerging services.
- It was suggested that the material in the Code should be complemented by developing Staff publications, bulletins, Q&As and other guidance to ensure that firms, and professional accountants more broadly, receive relevant and useful guidance in a timely manner.
- Knowledge and experience sharing should be encouraged.
- It was suggested that consideration could be given as to how a feedback loop might be established so that the IESBA can have access to “real-time” suggestions that might be useful in setting standards about new and emerging services.

⁸ Part 3 – Professional Accountants in Public Practice

⁹ Part 3, Section 350, *Custody of Client Assets*

¹⁰ International Independence Standards, Part 4A, Section 520, *Business Relationships*

G. Requirements for Auditor Communication with TCWG

29. There was almost universal agreement that the Code should require firms and network firms to obtain approval before providing NAS to audit clients. Roundtable participants generally believed that obtaining such approval from TCWG (i.e., audit committees, directors or equivalents) is beneficial in improving the oversight function of TCWG and should form part of their best practice and be promoted as such.
30. Some participants, particularly investors and regulators, cautioned that in establishing the requirement for pre-approval, the Code should clearly state that an entity's prior approval to the provision of a NAS does not relieve the audit firm from reaching its own conclusions about whether providing the NAS in question would impair its independence (i.e., both "independence in fact" and "independence in appearance").
31. Most roundtable participants were aware of the provisions in the IAASB's ISA 260 (Revised) which require auditors to communicate with TCWG about independence matters, including total fees charged for the audit and NAS provided by the firm to the audited entity, and any NAS provided by the firm or the network firm to the entity and certain components.¹¹ There was extensive discussion about whether it would be appropriate to replicate (and therefore duplicate) those IAASB provisions in the Code. The following views were expressed:
- It was suggested that it might be helpful to repeat the material in ISA 260 (Revised) in the Code (and supplemented, if necessary) because the Code may be used by individuals who are not familiar with the IAASB's standards (given that not all jurisdictions have adopted the IAASB's standards).
 - It was noted that the relevant provisions in ISA 260 (Revised) apply to audits of listed entities. For purposes of the Code, questions were raised about whether they should apply more broadly, in particular to audits of PIEs.

H. NAS Disclosure Requirements

32. Most roundtable participants, in particular investors, were supportive of having increased NAS disclosures. They noted that stakeholders, in particular investors and other users like to have information about the nature and scale of any NAS that auditors provide to their audit clients. It was noted that in jurisdictions where such information is available to investors and others, the level of NAS provided by firms to their audit clients has generally fallen. For example, at the Washington DC roundtable, an investor participant noted that increased transparency regulations in the US, such as the Sarbanes Oxley Act of 2002, has resulted in a reduction in the ratio of NAS to audit fees. The participant cited a [January 2018 report](#) produced by the research firm [Audit Analytics](#) to support his view. Roundtables participants at the Paris roundtable noted a similar trend in Europe, as did roundtable participants in Tokyo and Melbourne.
33. Some roundtable participants noted that increased transparency will help improve investor confidence and enable TCWG and others to generate the pressures necessary to change practice. They therefore

¹¹ In the case of listed entities, ISA 260 (Revised) requires the auditor to communicate with TCWG about ethics and independence matters in relation to the engagement team and others in the firm and network firm as appropriate. This communication is required to include a statement about:

- (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence, including **total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity**. These fees shall be allocated to categories that are appropriate to assist TCWG in assessing the effect of services on the independence of the auditor; and
- (ii) The **related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level**.

See paragraph 17 of International Standard of Auditing (ISA) 260 (Revised), *Communication with Those Charged with Governance*.

suggested that the IESBA should place increased focus on developing standards that enhance transparency. For example, it was suggested that the Code should include requirements that enhance transparency about the nature and extent of relationships between auditors and their audit clients, including NAS matters.

34. It was noted that there are challenges in achieving such transparency, and questions were raised about:
- Whether the IESBA's mandate allows for establishing disclosure requirements that could facilitate achieving transparency about NAS.
 - Who should be required to make the disclosure (i.e., the firm, the entity or TCWG)?
 - Whether it is first necessary to establish global corporate governance requirements in order to achieve such transparency.
 - Whether there might be practical issues in requiring auditors to disclose information about NAS without proper consent from their audit clients.

I. Fee Restrictions in Relation to NAS, Including "Fee Caps"

35. Roundtable participants expressed little or no support for establishing fee restrictions (e.g., a fee cap) in the Code, with the exception of some regulatory participants. Participants expressed the following views in support of their position:
- With enhanced transparency about NAS and NAS fees, market forces would address the NAS issues.
 - IESBA would be going beyond its remit in establishing fee restrictions, in particular, fee caps in the Code. They noted that fee caps are often dealt with in sovereign and anti-trust laws at the jurisdiction level.
 - Establishing fee restrictions involves complex definitional issues.
 - Some firms and IFAC member bodies cautioned against establishing a NAS fee threshold because doing so might have the unintended consequence of signaling to firms that do not typically provide NAS to their audit clients to revisit their policy.
 - Establishing fee restrictions is very granular and would be anathema to principles.
36. Section IV of this paper includes a discussion of input received by the Fees Working Group, including options for a way forward in relation to the ratio of NAS fees to audit fees. The WG considered those options in conjunction with roundtable participants' views, in particular, the rationale that they provided to support their positions.

J. Concerns about Firms' Business Models

37. Roundtable participants generally agreed with the position taken in the Briefing Note which stated that the concerns about audit quality and auditor independence that might arise from the multi-disciplinary consulting and advisory services provided by firms and network firms (i.e., business model) are a matter that extends beyond the remit of a NAS project.
38. In some locations there was a very lively debate about business model issues. Some participants questioned whether this issue can realistically be addressed by IESBA, while others (in particular, firms) suggested that firms and regulators are better positioned to deal with business model issues.

39. Participants' views also included the following:

- The business model issues impact on auditors' mind-set and the quality of audits, and therefore there was a view it is appropriate for the IESBA and the IAASB to monitor and participate in the discussions about firms' business models.
- There is a need for more research-based evidence on business model issues because existing research is based on outdated data. It was suggested that academic research should be updated to better reflect the new business models and the impact that new standards and regulations, as well as audit oversight, have had on business model issues, and related perceptions.
- The business model is not the real problem – rather there is a need to address standards that govern firms' overall culture and internal quality control systems. It was noted that these matters are already being considered by the IAASB as part of its Quality Control project involving revisions to ISQC 1.¹²

40. There was general agreement that the IESBA should contribute to the debate about firms' business models, but should not be leading it.

IV. Input from the Fees Working Group

41. The following matters were included in the June 2018 [Fees Working Group Final Report](#) as options for the WG to consider in relation to issues relating to the ratio of NAS fees to audit fees charged to audit clients:

- Requiring an assessment of the nature, frequency, value and cumulative effect of NAS on independence when providing multiple NAS to audit clients;
- Considering the role of disclosure of fee-related information to stakeholders, including public disclosure;
- Considering enhanced provisions relating to communication with TCWG, including seeking pre-approval of NAS, as was also suggested by the PIOB;
- Considering provisions that would require firms to re-evaluate threats to independence when the ratio of NAS fees to audit fees reach a particular threshold; and
- Hard-wiring in the Code a cap on the level of fees for NAS in relation to audit fees, and whether caps should be set in relation to both PIEs and non-PIEs.

42. The WG considered each of the options relating to the ratio of NAS and audit fees in conjunction with the views expressed at by roundtables participants as summarized in Section III of this paper and as part of the WG's assessments and proposals in Section V. For example, the WG noted that:

- The last bullet dealing with fees caps did not receive support from roundtable participants for reasons set out in Section III. Accordingly, that suggestion will not be pursued further.
- The option regarding an assessment of the nature, frequency, value and cumulative effect of NAS on independence when providing multiple NAS to audit clients is already covered by paragraphs R120.7, 120.8 A1 and 600.5 A4 of the Code.

43. It is anticipated that the WG's consideration of possible revisions to the Code (e.g., Sections 410 and 600) to require firms to re-evaluate threats to independence when the ratio of NAS fees to audit fees reach a particular threshold would require close coordination with the Fees Working Group.

44. The WG notes that in response to the November 2017 [Fees Questionnaire](#), the International Organization Securities Commissions (IOSCO) suggested that the "Code should include [enhanced]

¹² International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements*

safeguards [to address threats created by fees charged by audit firms], including not accepting, or resigning from, the audit engagement, and not pursuing non-audit fees to compensate.” The WG will assist the Fees Working Group in strengthening the relevant parts of the Code to the extent necessary to address NAS-specific issues.

V. WG Assessments and Proposals

A. Matters for Consideration

45. In view of the feedback from the roundtables, the WG believes there is sufficient basis for it to recommend that the Board initiate a project on NAS to address the matters set out below.

NAS that Create Self-review Threats, Materiality, and PIE and Non-PIEs,

46. The WG recognized roundtable participants’ suggestions that the IESBA should seek to establish a robust and harmonized set of NAS provisions for global application. Based on the roundtable discussions, the WG believes that this necessitates a consideration of the following issues:

- Whether the current approach in the Code relating to self-review threats¹³ is appropriate;
- Whether the concept of materiality should be retained; and
- Whether the distinction between PIE and non-PIE provisions in the Code should be retained.

The WG’s preliminary benchmarking analysis supports its view that the above issues should be considered (see Section VI).

47. In view of the concerns expressed by roundtable participants that the application of safeguards cannot reduce self-review threats to independence (both in fact and in appearance) to an acceptable level, the WG recommends that the objective of the project involve the development of NAS provisions that provide a clear and principles-based approach to the circumstances in which firms may be permitted to provide NAS to audit clients. In this regard, the WG recommends that the project consider:

- Whether the Code should prohibit firms and networks from providing a NAS to their audit clients whenever a self-review threat arises; and
- In relation to those NAS that are not prohibited, how to ensure that any threats created are reduced to an acceptable level.

48. In relation to materiality, the WG recommends that the project consider:

- Whether to retain the use of “materiality” as a factor against which a threat should be evaluated (i.e., paragraph 600.5 A1) or whether a different term should be used to:
 - (a) Avoid confusion with the test used in the preparation of financial statements; and
 - (b) Reduce the degree of subjectivity (and therefore inconsistency) that might occur.
- If the term “materiality” or a similar term (e.g. significant) is retained and used in contexts other than in referring to amounts and disclosures in financial statements, developing appropriate guidance to facilitate consistent application of such term.

In this regard, the WG notes that the topic of materiality is one of the identified actions in the Board’s proposed Strategy and Work Plan 2019-2023 (SWP). Subject to the Board’s deliberations

¹³ See Appendix 2 for a summary of self-review threats created by each type of NAS as set out in Section 600.

in finalizing the SWP, consideration will need to be given to how best to coordinate the effort and timeline on the NAS work stream with a potential new work stream on materiality.

- Whether to use a different threshold to determine when a threat created by providing a NAS is acceptable (e.g., whether the threat is “trivial and inconsequential,” or whether the nature and extent of threats should differ depending on the category of the entity concerned).

49. At all stages, the WG recommends that the project consider whether different approaches should be taken when firms provide NAS to their audit clients when those clients belong to different categories of entities (i.e., PIEs and non-PIEs). In this regard, the specific suggestions made by roundtable participants should be taken into account.

New and Emerging Services

50. The WG believes that there is merit for the project to consider whether there are other services that should be explicitly included in the Code, as well as some of the suggestions that participants made in relation to new and emerging services (see Section III, E of this paper). As there was recognition by roundtable participants that the IESBA may not be able to respond to all new and emerging services, particularly those involving new technologies, through changes to the Code in a sufficiently timely manner, the WG recommends that the project review the general NAS provisions in the Code to ensure that they remain appropriate to address new and emerging services.
51. In the WG's view, the immediate concern will be to ensure that there is a mechanism to provide timely guidance to firms and others that explain how the existing principles in the Code apply in the contexts of those new and emerging services, particularly those involving new technologies. The WG acknowledges the concerns about timing and sees merit in the Board exploring whether:
- To commission Staff publications or Q&As.
 - The Board should endorse or promote relevant and useful publications prepared by other organizations concerning those new and emerging services.

The WG notes the need to liaise and closely coordinate with the Technology and Rollout Working Groups in progressing the above matters.

Requirements for Auditor Communication with TCWG

52. The WG believes that the feedback from the roundtables provides strong support for the IESBA to include the IAASB's requirements for auditor communications with TCWG about NAS in the Code, or a reference to such requirements (see footnote 11).
53. The WG recommends that the project also consider whether, and if so how, to include provisions that would require firms to obtain approval of a NAS engagement from TCWG in advance of that service being provided to audit clients (i.e., pre-approval of NAS).
54. The consideration of this matter will need to take into account the fact that the IESBA's remit cannot be extended to imposing obligations on TCWG.

NAS Disclosure Requirements

55. The WG recommends that the project explore how best to respond to requests for enhanced disclosure requirements about NAS, having regard to the merits of transparency and the challenges highlighted by roundtable participants in achieving it. In particular, the WG recommends that the project explore issues relating to the relationship between NAS and audit fees (e.g., considering provisions that would require firms to re-evaluate threats to independence when NAS fees to audit fees reach a particular threshold).

Consequential and Conforming Amendments to Section 950¹⁴

56. The WG recommends that the project consider any consequential and conforming amendments to Section 950 that may be appropriate as a result of any changes to Section 600.

B. Matters that will not be Pursued Further

57. The WG carefully reviewed and reflected on the various perspectives expressed by roundtable participants about the following issues:
- Inclusion of a 'blacklist' in the Code;
 - A requirement that auditors ensure that entities disclose to stakeholders the nature and value of NAS provided by the auditors to them;
 - The establishment of fee restrictions on the provision of NAS to audit clients; and
 - Firms' business models.
58. Having considered the rationale provided for the various positions taken, the WG is of the view that the above matters should not form part of the project.

VI. Supporting Analysis, Including Benchmarking

A. Overall Approach

59. In support of its recommendations, the WG believes it is important to:
- Review key NAS provisions across certain jurisdictions, including the various approaches that jurisdictions have taken and the related rationale to determine how those approaches compare to the Code (i.e., benchmarking);
 - Review relevant research and national developments relating to NAS; and
 - Undertake further and more targeted outreach to stakeholders as views are developed.

B. Benchmarking

60. The WG performed preliminary benchmarking which involved:
- Comparing the NAS provisions in the Code to Article 5 of the EU Regulation¹⁵ and vice versa; and
 - Reviewing an externally prepared comparison of the NAS provisions in the Code, the independence rules of the Public Company Accounting Oversight Board (PCAOB) and the independence rules of the US Securities Exchange Commission (SEC).

Preliminary Benchmarking Observations

61. The preliminary benchmarking work demonstrates that in general, the Code, the EU Regulation, the PCAOB and the SEC rules all deal with similar topics in relation to NAS. The WG noted that:
- The EU approach started as a two-tier regime, the first of which originally aligned to the current provisions in the Code. The EU Regulation includes a "black list" for PIEs.
 - The PCAOB and SEC rules use a different approach to NAS provision. Their rules make it clear that the outcome of the NAS work will not be subject to audit procedures. In this way, those rules implicitly address the self-review threat and the concept of materiality.

¹⁴ Section 950, *Provision of Non-assurance Services to Assurance Clients Other than Audit and Review Engagement Clients*

¹⁵ Regulation No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC

- In contrast, the Code allows firms to provide NAS to audit clients provided that any threats (e.g., self-review threats) created as a result are at an acceptable level. This approach allows firms more flexibility (e.g., by the inclusion of the materiality qualifier).

62. Based on its work performed to date, the WG questions whether more extensive benchmarking would help identify any new NAS issues for consideration, or add further value to the process of determining a way forward. The WG believes that if further benchmarking is thought to be necessary, a practical approach might be to facilitate a comparison of the NAS provisions in jurisdictions who are members of the IESBA-NSS liaison group.¹⁶

VII. Consideration of Project Proposal and Timeline

63. **Agenda Item C-2** is the NAS project proposal reflecting the various matters for consideration set out above. The project proposal is subject to revisions to incorporate:

- Input from the CAG's and Board's September 2018 meeting discussions.
- Relevant feedback from respondents to the SWP 2019-2023 consultation paper.

Matters for CAG Consideration

1. Having regard to the summary of feedback on the various NAS issues discussed in the global roundtables in Section III, do Representatives agree with the WG's assessments and proposals set out in Section V?
2. Do Representatives believe that all NAS matters for consideration are appropriately dealt with in the project proposal in **Agenda Item C-2**?
3. Are there any other matters that Representatives believe should be dealt with in a NAS project?

¹⁶ The following jurisdictions are members of the IESBA's NSS liaison group: Australia, Brazil, Canada, China (Mainland), France, Germany, Hong Kong, India, Japan, the Netherlands, New Zealand, Russian Federation (currently no active representative), South Africa, United Kingdom and the United States.

Appendix 1

Analysis of RoundTable Participants

I. Categories of Stakeholders

Stakeholder Group	Washington DC	Paris	Tokyo	Melbourne	Total
Investors, user advocates and regulators	5	3	5	4	17
Public sector organizations	1	1	0	1	3
TCWG and preparers	4	3	1	3	11
Firms, including SMPC representatives	11	13	8	16	48
NSS and IFAC member bodies	2	10	10	16	38
Academics	3	0	2	3	8
Others, including IAASB and IAESB representatives	5	3	4	2	14
Observers (i.e., PIOB, CAG and regulators) ¹⁷	5	4	4	0	13
Total Participants	36	37	34	45	152

¹⁷ Includes regulators who expressly requested attendance as observers

Summary of Provisions that Apply When Providing NAS to Audit Clients

The Conceptual Framework and its Applicability in the Context of NAS

1. The approach used in developing the NAS provisions in the Code is centered on the application of the conceptual framework set out in Section 120 of the Code. This is based on the premise that it is impracticable for a global Code to cover an exhaustive list of the types of services that might be provided by a firm or network firm to its audit clients because services are continually being created as business practices and financial markets evolve, and due to advancing technologies.
2. The general provisions in Part 1 of the Code, in particular, those set out in the conceptual framework apply when a specific type of NAS is not explicitly dealt with in the Code.
3. The Code that will become effective in June 2019 includes new and revised provisions to the conceptual framework in a consistent manner that will better assist firms identify, evaluate and address threats created by providing a NAS to an audit client.
4. Highlights of those revisions include:
 - New application **material for evaluating threats, including a list of examples of factors** that firms and network firms might consider in doing this evaluation (see paragraph 600.5 A1).
 - **Strengthened provisions for addressing threats** which:
 - Clarify that threats are addressed either by:
 1. **Eliminating the circumstance**, interest or relationship creating the threat;
 2. **Applying safeguards**, where available and capable of being applied to reduce the threat(s) to an acceptable level;¹⁸ or
 3. **Declining or ending the specific professional service.**
 - **Emphasize that there are some situations in which safeguards might not be available or capable of reducing threats** created by providing a NAS to an acceptable level. In such situations, the firm or network is required to decline or end the NAS or the audit engagement.
 - **Revise the description of safeguards** to clarify that they are actions that individually or in combination *effectively* reduce the threats to independence that have been identified to an acceptable level [emphasis added].
 - **Better align the NAS safeguards** to the specific type of threats that they are intended to respond to.
 - New application **material relating to materiality in relation to an audit client's financial statements** to explain that the determination of materiality involves the exercise of professional judgment, and is impacted by both quantitative and qualitative factors, and is affected by perceptions of the financial information needs of users.
 - New application material to **emphasize the need for firms and network firms to consider the combined effect of threats created when multiple NAS are provided** to the same audit client.
 - **Enhanced provisions for dealing with advocacy threats**, including, clarifications about how

¹⁸ Paragraph 120.7 A1 of the Code defines an **acceptable level** as “the level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant has complied with the fundamental principles.”

to evaluate and address advocacy threats that are created when providing certain NAS – i.e., valuation, tax, litigation support, legal and corporate finance services.

- **Increased emphasis on the fact that assuming a management responsibility creates advocacy threats, in addition to familiarity threats** because the firm or network firm becomes too closely aligned with the views and interests of management.

Additional NAS Provisions set out in Section 600

5. In addition to the provisions relating to the application of the enhanced conceptual framework to identify, evaluate and address threats when providing NAS to audit clients, Section 600¹⁹ of the Code contains:
 - General and specific requirements and application material that apply to firms and network firms when providing NAS to audit clients (see paragraphs 600.1 to R600.10). Those general provisions apply in all situations when a NAS is provided to an audit client.
 - Additional and more specific provisions that are set out in subsections 601-610 which apply when providing the following types of NAS to audit clients:
 - Accounting and bookkeeping services.
 - Administrative services.
 - Valuation services.
 - Tax services, including activities, such as:
 - Tax return preparation.
 - Tax calculations for the purpose of preparing the accounting entries.
 - Tax planning and other tax advisory services.
 - Tax services involving valuations.
 - Assistance in the resolution of tax disputes.
 - Internal audit services.
 - Information technology (IT) systems services.
 - Litigation support services.
 - Legal services.
 - Recruiting services.
 - Corporate finance services.
6. A key requirement in Section 600 of the Code relates to the **prohibition of the assumption of management responsibilities** when providing any NAS to audit clients.²⁰ Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

¹⁹ International Independence Standards, Part 4A, Section 600

²⁰ See Part 4A, Section 600, paragraphs R600.7 and 600.7 A1 to R600.8.

Provisions Dealing with the Risks of Threats

7. Section 600 of the Code explicitly states that providing **NAS to audit clients might create threats** to compliance with the fundamental principles and threats to independence.²¹ It also:
- (a) States that **providing a NAS to an audit client creates self-review** and self-interest threats **if the firm or network firm assumes a management responsibility** when performing the service.²²
 - (b) Emphasizes that for some types of NAS,²³ the threat created cannot be addressed by applying safeguards. In those instances, there are requirements prohibiting firms from providing these services in certain circumstances, in particular to PIEs.
 - (c) For the specific types of NAS covered in the Code, there is an indication of the types of threats that might be created as a result as of providing the specific NAS.
 - (d) All but one types of the NAS explicitly dealt with the Code (recruiting services) are likely to create a self-review threat – the level of which may vary based on the firm's evaluation using the factors provided in Section 600.

Types of NAS and Risks of Self-review Threats

8. Below are extracts of statements in Section 600 of the Code relating to the risks of self-review threats and the provisions of NAS to audit clients:
- (a) Providing **accounting and bookkeeping services** to an audit client **might create a self-review threat**.²⁴ However the Code notes that:
 - Activities that are considered to be a normal part of the audit process and **do not usually create threats** as long as the client is responsible for making decisions in the preparation of accounting records and financial statements. Such activities might involve:²⁵
 - Applying accounting standards or policies and financial statement disclosure requirements.
 - Assessing the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities.
 - Proposing adjusting journal entries.
 - (b) Providing the following types of accounting and bookkeeping service services **do not usually create threats** provided neither the firm nor network firm assumes a management responsibility for the client.²⁶
 - Providing technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting

²¹ See Part 4A, Section 600, paragraph 600.2.

²² See Part 4A, Section 600, paragraph 600.7 A2.

²³ See Part 4A, Section 600, paragraphs 601.2 (accounting and bookkeeping); 603.2 (valuation); 604.2 (tax); 605.2 (internal audit); 606.2 (IT systems); 609.2 (recruiting); 610.2 (corporate finance).

²⁴ Part 4A, Section 600, paragraph 601.1

²⁵ Part 4A, Section 600, paragraph 601.3 A3

²⁶ Part 4A, Section 600, paragraph 601.3 A4

- Providing technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another, including:
 - o Complying with group accounting policies.
 - o Transitioning to a different financial reporting framework such as International Financial Reporting Standards.
- (c) Providing **administrative services** to an audit client **does not usually create a threat**. The Code notes that such services involve assisting clients with their routine or mechanical tasks within the normal course of operations and require little to no professional judgment. For example:²⁷
 - Word processing services.
 - Preparing administrative or statutory forms for client approval.
 - Submitting such forms as instructed by the client.
 - Monitoring statutory filing dates, and advising an audit client of those dates.
- (d) Providing **valuation services** to an audit client **might create a self-review** or advocacy threat.²⁸
- (e) In general providing **tax services** to an audit client **might create a self-review** or advocacy threat.²⁹ However, the Code further notes that:
 - Providing **tax return preparation services does not usually create a threat**.³⁰
 - Preparing **calculations of current and deferred tax liabilities (or assets)** for an audit client for the purpose of preparing accounting entries that will be subsequently audited by the firm **creates a self-review threat**.³¹
 - Providing **tax planning and other tax advisory services might create a self-review** or advocacy threat.³²
 - Providing **tax valuation services** to an audit client **might create a self-review** or advocacy threat.³³
 - Providing **assistance in the resolution of tax disputes** to an audit client **might create a self-review** or advocacy threat.³⁴
- (f) Providing **internal audit services** to an audit client **might create a self-review threat**.³⁵
- (g) Providing **information technology (IT) systems services** to an audit client **might create a self-review threat**.³⁶

²⁷ Part 4A, Section 600, paragraphs 602.1, 602.3 A1, 602.3 A2

²⁸ Part 4A, Section 600, paragraph 603.1

²⁹ Part 4A, Section 600, paragraph 604.1

³⁰ Part 4A, Section 600, paragraph 604.4 A1

³¹ Part 4A, Section 600, paragraph 604.5 A1

³² Part 4A, Section 600, paragraph 604.7 A1

³³ Part 4A, Section 600, paragraph 604.9 A1

³⁴ Part 4A, Section 600, paragraph 604.10 A1

³⁵ Part 4A, Section 600, paragraph 605.1

³⁶ Part 4A, Section 600, paragraph 606.1

- (h) Providing **certain litigation support services** to an audit client **might create a self-review** or advocacy threat.³⁷
- (i) Providing **legal services** to an audit client **might create a self-review** or advocacy threat.³⁸
- (j) Providing **corporate finance services** to an audit client **might create a self-review** or advocacy threat.³⁹ The Code includes the following **examples of corporate finance services that might create a self-review** or advocacy threat include:⁴⁰
 - Assisting an audit client in developing corporate strategies.
 - Identifying possible targets for the audit client to acquire.
 - Advising on disposal transactions.
 - Assisting in finance raising transactions.
 - Providing structuring advice.
 - Providing advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will express an opinion.

9. In most instances, the statements about the risks of threats being created by providing a NAS to audit client referenced the creation of a self-review threat. However, the wording of those statements were different and can be summarized as:

- ...Do not usually create ... threats...
- ...Might create a ...threat...
- ... Creates a ...threat ...

³⁷ Part 4A, Section 600, paragraph 607.1

³⁸ Part 4A, Section 600, paragraph 608.1

³⁹ Part 4A, Section 600, paragraph 610.1

⁴⁰ Part 4A, Section 600, paragraph 610.3 A1