

**REVISED PROJECT PROPOSAL—NON-ASSURANCE SERVICES****I. Subject**

1. The non-assurance services (NAS) provisions in Sections 290<sup>1</sup> and 291<sup>2</sup> of the Code dealing with independence, specifically:
  - Management responsibilities
  - Services of a routine or mechanical nature
  - Emergency exceptions for bookkeeping and taxation services

**II. Background and Relevant Developments**

## INDEPENDENCE I AND II

2. In the early part of the last decade, several major corporate failures led to concerns about aspects of the financial reporting process and prompted many jurisdictions to take steps to restore credibility. Some of these steps related to independence requirements for accountants performing audit and assurance engagements. In the light of these developments, the IESBA commenced the Independence I and II projects to determine whether to revise any of the independence requirements contained in Section 290 of the Code and which dated from 2001. The projects led to changes to the independence requirements relating to the provision of NAS including:
  - Valuation services for public interest audit clients;
  - Tax services;
  - IT systems services;
  - Corporate finance services; and
  - Internal audit services
3. These changes to the Code were released in July 2009 at the same time as changes arising from the IESBA's new drafting conventions.

## INTERNATIONAL DEVELOPMENTS

4. Although the independence requirements were modified in 2009, that year also marked the advent of the global financial crisis. As a result of the crisis, a number of major jurisdictions around the world have initiated, or been actively engaged in, policy debates regarding ways to enhance audit quality and independence. Among several policy initiatives that are currently actively being pursued in these jurisdictions are proposed changes to national requirements relating to the provision of non-audit services.

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<sup>1</sup> Section 290, *Independence – Audit and Review Engagements*

<sup>2</sup> Section 291, *Independence – Other Assurance Engagements*

5. Examples of such initiatives include the following:
  - In August, 2011, the US Public Company Accounting Oversight Board (PCAOB) issued its Concept Release, *Auditor Independence and Audit Firm Rotation*.
  - In October, 2010, the European Commission issued its Green Paper, *Audit Policy: Lessons from the Crisis*.
  - In September 2012, the Canadian Institute of Chartered Accountants (CICA) and the Canadian Public Accountability Board (CPAB) jointly issued a Discussion Paper, *Enhancing Audit Quality: Canadian Perspectives – Auditor Independence*.

#### IESBA 2008-2009 AND 2010-2012 STRATEGY PROPOSALS

6. In response to the IESBA's Strategic and Operating Plan for 2008-2009 and 2010-2012, the International Organization of Securities Commissions (IOSCO) recommended that the IESBA make use of IOSCO's significant study on the regulation of non-audit services undertaken in 2006 and 2007 to identify which audit services are prohibited in practice, and also recommended that the IESBA revisit the Code's requirements related to the provision of NAS.
7. In consideration of the comments received, the final *Strategy and Work Plan 2011-2012* signaled that the IESBA would initiate in 2011 a comparison of key independence provisions of the Code for audits of PIEs to the standards and regulations of select jurisdictions, and examine the outcome of this exercise.

#### NAS WORK STREAM

8. Pursuant to the *Strategy and Work Plan 2011-2012*, the IESBA undertook a benchmarking exercise comparing the independence requirements set out in Section 290 of the Code with the requirements in Australia, Brazil, France, Germany, Japan, Hong Kong, UK and the US.
9. The findings were considered at the June 2011 IESBA meeting.<sup>3</sup> It was noted at the April 2011 IESBA-National Standard Setters (NSS) meeting that a key message had been the importance of respecting national sovereignty and thus, there may be tension between providing leadership on ethical issues and recognizing that the Code has to have global applicability. The IESBA agreed that the Planning Committee should develop a proposal to review the Code's requirements relating to the provision of NAS for the IESBA's consideration in due course.
10. The IESBA initiated a discussion at its February 2012 meeting regarding whether the Code's provisions concerning NAS remain appropriate. The discussion took into account possible measures being debated in a number of major jurisdictions, including Europe and the US, in an attempt to strengthen auditor independence.
11. As a result of the discussion, in May 2012 the IESBA added a new work stream to its 2010-2012 strategy as follows:

The IESBA will consider whether the Code should include additional restrictions on auditors providing NAS to their audit clients and whether the use of materiality as the basis for prohibiting certain NAS remains appropriate. If materiality continues to be appropriate, the IESBA will consider whether the

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<sup>3</sup> The benchmarking exercise was undertaken by a number of IESBA members and technical advisors on a best efforts basis. The results from that exercise had not been validated by any relevant regulators or IFAC member bodies.

Code should contain guidance for applying it. If certain NAS 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.

12. At its December 2012 meeting, the IESBA approved in principle a project proposal concerning NAS, subject to confirmation of its scope. There was some reservation concerning the possibility of an extensive project related to NAS. This was due to the fact that the Independence I and II projects had recently been completed. It was suggested that the project should be limited to specific areas that may need to be revised based on the results of a benchmarking exercise. The IESBA asked the Task Force to research the matter with a view to better circumscribing the scope of the project.
13. At the June 2013 IESBA meeting, the Task Force reported its recommendation to the IESBA based on the results of a benchmarking exercise it performed in March 2013. Through the benchmarking survey, the Task Force sought to understand the extent to which a number of jurisdictions are more restrictive in their national ethics requirements than the Code with respect to certain types of NAS for both public interest and non-public interest entities. The main results of the benchmarking exercise were as follows:<sup>4</sup>
  - Jurisdictions are in line with the Code for most of the Code's provisions
  - Approximately half of the jurisdictions had more restrictive provisions concerning taxation, valuation and internal audit services.
  - A significant number of jurisdictions do not have emergency provisions for bookkeeping or tax services.
  - Responses concerning materiality varied in terms of services to which the concept may be applied.
14. Based on its evaluation of the survey input, the Task Force also noted that the Code may benefit from clarification of the requirements and guidance in the Code concerning "management responsibilities" and services that are "routine and mechanical."
15. The Task Force therefore recommended, and the IESBA agreed, that a project be undertaken to review the provisions relating to management responsibilities, the phrase "routine and mechanical" as it pertains to the provision of accounting and bookkeeping services, and the appropriateness of the emergency exception provisions for bookkeeping and tax services. In addition, the Task Force recommended, and the IESBA agreed to, the development of a paper analyzing the IESBA's position on NAS. The paper is intended to be used as a communication vehicle which would, among other matters, raise awareness of the Code's approach to NAS, emphasize the robustness of the Code's NAS provisions overall, and explore a number of related issues of interpretation or application, including taxation, valuation and internal audit services along with materiality.

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<sup>4</sup> For an overview of the survey and an analysis of the responses, see <http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%205-A%20-%20Non%20Assurance%20Services%20-%20Issues%20Paper.pdf>

### III. Project Objectives, Scope, Focus and How They Serve the Public Interest

#### Project Objective

16. The objective of this project is to:
- Clarify the NAS provisions in the Code concerning management responsibilities;
  - Clarify the phrase “routine or mechanical” as it pertains to the provision of accounting and bookkeeping services; and
  - Examine the “emergency exception” provisions related to bookkeeping and taxation services.

#### Project Scope

17. The project scope will encompass the following:
- The provisions in the subsection *Management Responsibilities* (paragraphs 162-166) of Section 290.
  - The provisions in the subsection *Preparing Accounting Records and Financial Statements*, specifically paragraphs 167-174 of Section 290.
  - The provisions in the subsection *Tax Calculations for the Purpose of Preparing Accounting Entries*, specifically paragraphs 185-186 of Section 290.
  - Necessary conforming changes to Section 291 resulting from any of the potential changes to Section 290.

#### Focus of the Project

18. The project will focus on the following main areas:
- (a) Reviewing the provisions concerning management responsibilities in Section 290 of the Code and evaluating the clarity of the term and the overall guidance.
  - (b) Examining the phrase “routine or mechanical” as it applies to accounting and bookkeeping services for clarity and considering further guidance concerning what may or may not be considered to be “routine or mechanical;” and
  - (c) Examining the emergency exception provisions as they apply to bookkeeping and taxation services, and considering the appropriateness of the exception provisions for continued inclusion in the Code.

#### How the Project Serves the Public Interest

19. Varying views exist on what constitutes a management responsibility and a routine or mechanical bookkeeping service, and hence, what NAS a professional accountant may provide that may impair independence. By seeking to enhance the clarity of the guidance in these areas, the project will promote consistency of application of the relevant provisions of the Code. In addition, by reconsidering the need for emergency exception provisions in the Code regarding bookkeeping and taxation services, the project will seek to maintain the Code as a robust set of standards for application by professional accountants globally.

## IV. Outline of the Project

### Issues that Will Be Addressed

20. The Code currently prohibits a professional accountant from assuming management responsibilities when performing an audit, review or other assurance services as noted in section 290. The Code does offer some examples of activities that may be considered to be management responsibilities. The Code also states that activities that are “routine and administrative,” or involve matters that are “insignificant” are deemed to not be a management responsibility. The language within the subsection *Management Responsibilities* thus may be in need of further clarification. For example, the provisions may need more examples of activities that are considered management responsibilities. The provisions may also be enhanced with further clarification as to what would include an activity that is “routine and administrative.” This language will be examined to ensure that the Code continues to provide appropriate guidance for professional accountants.
21. Subsection *Preparing Accounting Records and Financial Statements* in Section 290 states that a professional accountant may provide certain accounting and bookkeeping services that are of a routine or mechanical nature for a client that is not a PIE as long as any self-review threat created is reduced to an acceptable level. The paragraph goes on to provide examples of such services. The phrase “routine or mechanical” is also used in paragraph 290.173. The paragraph states that a firm may provide certain bookkeeping services of a routine or mechanical nature for divisions or related entities of an audit client that is a PIE assuming certain conditions are met. The phrase “routine or mechanical” will be considered to determine whether there is a need to include additional explanatory material to clarify its meaning.
22. Section 290 contains two emergency situations. The first is contained in paragraph 290.174. This paragraph states that bookkeeping and accounting services that would otherwise not be permitted would be permissible in certain emergency situations when it is impracticable for the audit client to make other arrangements. The same emergency provision applies to the preparation of calculations of current and deferred tax liabilities (or assets) as noted in paragraph 290.186. This emergency provision will be evaluated for appropriateness.

### Impact Analysis Considerations

23. Should the relevant NAS provisions in the Code be further enhanced as a result of this project, the main benefits would include greater consistency in the application of those provisions and strengthened independence of the professional accountant.
24. There will be some implementation costs at the national and firm levels that normally accompany changes to the Code, for example, translation, education and training.
25. As the project progresses, further consideration of costs and benefits will be an important part of the IESBA’s evaluation of the project. IFAC is currently developing an impact analysis framework for the standard-setting bodies that it supports.

## V. Implications for any Specific Persons or Groups

26. The project has particular implications for:
  - Audit clients, those charged with governance and investors that rely on the audit when professional accountants in public practice also provide NAS to their clients;

- NSS and IFAC member bodies that have adopted the Code, or used it as a basis or a benchmark for their own ethical standards;
- Firms that are subject to the requirements of the Code or national ethics standards that are based on the Code; and
- National regulators that use the Code's provisions as a benchmark or as a basis for the development of their independence rules pertaining to the provision of NAS by firms to their clients.

## **VI. Development Process, Project Timetable and Project Output**

### **Development Process**

27. It is anticipated that the project will follow the normal development process of the IESBA for changes to the Code.

### **Project Timetable**

28. Subject to the IESBA's approval of the project proposal, this project will commence immediately. The specific project milestones and outputs will be dependent on the matters that the project Task Force ultimately determines are appropriate to address as part of the project, and the priorities assigned to those matters.
29. The table below provides indicative timing for the project.

<b>Indicative Timing</b>	<b>Milestone</b>
September 2013	Approval of project proposal
April 2014	Approval of exposure draft

### **Project Output**

30. The output of the project could be changes to the NAS provisions in the Code.

## **VII. Resources Required**

31. A project Task Force which has already been established, consisting of five individuals, including an IESBA member as Chair.
32. IESBA Staff will provide support to the project Task Force.

## **VIII. Relevant Sources of Information that Address the Matter Being Proposed**

33. Relevant sources of information include NAS provisions in major jurisdictions around the world.