

**Meeting:** IESBA  
**Meeting Location:** New York  
**Meeting Date:** March 4, 2019

## Agenda Item

# E

### Non-Assurance Services (NAS)

#### Objectives

1. To report back on the September 2018 discussions about the IESBA's Non-Assurance Services project.
2. To discuss key issues identified by the Task Force and obtain Representatives' input on the proposed revisions to the NAS provisions in the Code which have been developed to address the issues in the [NAS project proposal](#).

#### Project Status and Timeline

3. In response to concerns from regulatory stakeholders and the Public Interest Oversight Board (PIOB), the IESBA included the NAS topic as a pre-commitment in the its proposed Strategy and Work Plan, 2019-2023, [Elevating Ethics in a Dynamic and Uncertain World](#).
4. The IESBA approved the NAS project proposal in September 2018. This project proposal was informed by [feedback](#) on a Briefing Paper, [Non-Assurance Services – Exploring Issues to Determine a Way Forward](#) that was discussed at the [four global roundtables](#) and advice from its Consultative Advisory Group (CAG).<sup>1</sup> The [IESBA Project Timetable](#) anticipates a September 2019 approval date for the NAS Exposure Draft.

#### Task Force's Approach

5. The Task Force has developed proposed revisions to the provisions in the Code that address the circumstances in which firms and network firms may or may not provide non-assurance services to audit clients (i.e., Section 600).<sup>2</sup>

#### Report Back on March 2018 CAG Discussions

6. Appendix 1 provides a summary of the Task Force's proposals that will be presented to the IESBA

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<sup>1</sup> The CAG provided input on the NAS project proposals in September 2018.

<sup>2</sup> Part 4A – International for Audit and Review Engagements, Section 600, *Provision of Non-Assurance Services to an Audit Client*

for discussion at its March 2019 meeting, and Appendix 2 includes a NAS project history. In developing its proposals, the Task Force carefully considered the Representatives' suggestions.

7. Below are extracts from the draft minutes of the September 2018 CAG meeting<sup>3</sup> and an indication of how the Task Force/IESBA has responded to CAG Representatives' comments.

Matters Raised	Task Force/ IESBA Response
GENERAL MATTERS AND PROJECT SCOPE	
<ul style="list-style-type: none"> <li>• Mr. Koktvedgaard noted that the roundtables were really useful.</li> <li>• Ms. Robert also shared her view that the discussions at the roundtables were really open, and that there was general consensus on the way forward.</li> </ul>	<p>Support noted.</p> <p>Mr. Fleck acknowledged that the roundtables had accelerated the process of collecting views and that they might help obviate the need to re-expose any proposed changes to the Code.</p>
<ul style="list-style-type: none"> <li>• Mr. James referred to a previous letter from IOSCO Committee 1 that sought clarification of the concept of management responsibility, in the sense that when management accepts responsibility, in reality they often act according to the auditor's advice. He believed that this also creates an independence issue and has not yet been properly addressed.</li> </ul>	<p>Point taken into account.</p> <p>See paragraph 11 of this paper.</p>
<ul style="list-style-type: none"> <li>• Mr. Pavas asked whether the project would define the term NAS and what kind of effect NAS could have on the audit.</li> </ul>	<p>Point taken into account.</p> <p>During the meeting, Mr. Fleck noted that it is important for firms to assess the implications of NAS on independence on a qualitative basis. He also indicated that project would seek to clarify the difference between non-audit services and NAS.</p> <p>This is a matter that the Task Force has not concluded on yet and plans to progress during its May 2019 meeting.</p>
SELF-REVIEW THREATS, LIST OF PROHIBITED NAS "BLACKLIST"	

<sup>3</sup> The September 2018 CAG minutes will be approved during the March 2019 IESBA CAG meeting.

<ul style="list-style-type: none"> <li>• Mr. Hansen suggested that the project focus on the self-review threat. He expressed concern about terms such as “routine and mechanical” in the Code as he felt that these allow room for self-review threats.</li> <li>• Mr. Hansen asked the WG to differentiate properly between prohibited and permissible services. He referred to the example of providing education to entities regarding the application of new financial reporting standards, which in his view should be permissible, but not developing a system related to financial reporting for the entity, which should be prohibited.</li> </ul>	<p>Points taken into account.</p> <ul style="list-style-type: none"> <li>• Mr. Fleck responded that if an auditor were to provide training and education to an audit client, that should be evaluated in terms of the relationship created between the firm and the client, not in terms of the self-review threat. He added that self-review goes to the core of the meaning of an audit.</li> <li>• Mr. Fleck acknowledged the apparent contradiction in mentioning no black list but stated that prohibitions would be enhanced. However, the WG was very clear that using the concept of a “black list” could lead to different interpretations. Therefore, the WG intended to give clear descriptions of the services addressed. He also added that the project would aim to prohibit any kind of NAS involving a self-review threat and, hence, there would be no subjectivity involved.</li> </ul>
<ul style="list-style-type: none"> <li>• Mr. Yurdakul concurred, noting that self-review is an important principle.</li> <li>• Mr. Hansen was of the view that services creating an advocacy threat should not be provided. He referred to litigation services as an example.</li> <li>• Mr. Fortin also added that a black list can be counterproductive. However, as the WG proposed that prohibitions would be also enhanced even though there would be no black list, he felt that this was not a clear message.</li> <li>• Mr. Yurdakul noted that it is sometimes difficult to enforce prohibitions due to the different interpretations taken by firms. Similarly, he felt that it is difficult to judge what an acceptable level is as it can change on a case by case basis.</li> <li>• Mr. James added that there is a need to have clear understanding of the types of services covered. He emphasized that it is important for auditors to have clear lines regarding what is permissible to ensure consistent application, believing that it is important to address areas of ambiguity.</li> </ul>	<ul style="list-style-type: none"> <li>• Mr. Fleck responded that if materiality is removed as a consideration and prohibition of NAS where there is a self-review threat is introduced, there would be no more discretion on the auditor’s side. He added that in his view, the difficulty is in the assessment of the services by individuals. Therefore, the WG aimed to create clarity in the definitions of the services.</li> <li>• Dr. Thomadakis also shared the view that the description of the services should be clear. He added that the IESBA has always faced the issue of being principles-based when dealing with NAS. On the other hand, there are calls to remove materiality as a consideration, and to prohibit NAS where there is self-review.</li> </ul> <p>See also paragraph 9(a) of this paper.</p>

<ul style="list-style-type: none"> <li>Ms. Diplock queried how the project will ensure that the enhanced prohibitions would not leave discretion on the auditor's side and be enforceable, and whether permissibility would already be specified in the Code or whether this would be left to the auditor's discretion. She believed that the dilemma is how to formulate prohibitions without creating a blacklist at the same time. She noted that it is in the public interest to be clear with prohibitions.</li> </ul>	
<ul style="list-style-type: none"> <li>Mr. Koktvedgaard queried whether a cooling off period would be considered if there is a self-review threat. Mr. Hansen also noted that the issue of cooling-off related to providing NAS comes up often among stakeholders.</li> </ul>	<p>Point noted.</p> <p>Ms. Soulier noted that this issue is more or less addressed in the Code as part of client acceptance.</p>
<p><b>MATERIALITY</b></p>	
<ul style="list-style-type: none"> <li>Mr. Hansen recommended not to use a term that is related to the financial statements, but rather consider using a term such as "inconsequential", but not "trivial."</li> <li>Mr. Fortin also added that the term "materiality" is more in the realm of financial statements, but he believed that "trivial and inconsequential" as a term is not well-defined yet.</li> </ul>	<p>Points taken into account.</p> <ul style="list-style-type: none"> <li>Mr. Fleck responded that in his understanding, there is already agreement that "materiality" as a term should be limited to the financial statements context. So far, many other terms have come up, such as "trivial and inconsequential." He referred to the relationship between the entity and the auditor which he felt should not be evaluated in a quantitative manner, but rather assessed in terms of whether the professional activity adversely affects the auditor's independence or perceived independence.</li> </ul>
<p><b>TRANSPARENCY, AUDIT COMMUNICATION ABOUT WITH TCWG, FEES</b></p>	
<ul style="list-style-type: none"> <li>Mr. Hirai queried to which stakeholders the companies would intend to present the information concerning NAS.</li> <li>Mr. Yurdakul added that if the disclosure is in the context of the financial statements, it</li> </ul>	<p>Points taken into account.</p> <ul style="list-style-type: none"> <li>Mr. Fleck explained that even though different countries have different disclosure regimes, the general view from the roundtables was that it is not the IESBA's role to tell TCWG what to communicate to</li> </ul>

<p>should be an issue for the national regulators.</p> <ul style="list-style-type: none"> <li>Mr. Koktvedgaard questioned whether there are any prohibitions on disclosure of fees in audit reports. He understood that it is not mandated but queried whether there are any rules that prohibit it.</li> </ul>	<p>stakeholders. Rather, it is a matter of company law and corporate governance.</p> <p>See also paragraph 9(c) of this paper.</p>
<ul style="list-style-type: none"> <li>Mr. Sobel noted that IESBA has no remit for creating rules for TCWG. Instead, he encouraged the WG to influence professional accountants to achieve greater transparency.</li> </ul>	<p>Point taken into account.</p> <p>Mr. Fleck responded that even though it is not within the remit of the IESBA to mandate disclosure by entities, there are options the WG can further explore, for example, auditors could provide information that TCWG might be able to use for disclosure purposes, or the WG could initiate discussion with the IAASB regarding the inclusion of some NAS-related information in the auditor's report. However, he believed that the latter would probably be a distant option.</p>
<ul style="list-style-type: none"> <li>Mr. Fortin asked whether the issue of ratio of NAS to audit fees and the review of the safeguards will be covered in the project. He also wondered whether self-interest is a relevant consideration, in addition to self-review.</li> </ul>	<p>Point taken into account.</p> <p>See paragraph 12 of this paper.</p>

**March 2019 IESBA Meeting**

- The IESBA will consider at its March 2019 meeting a presentation by the Task Force Chair setting out the Task Force's key policy decisions/proposals and the reasons for them. The Board will be asked for its views on the Task Force's approach and, in particular, whether it supports those policy decisions and proposals.

*Significant Revisions, Including New Requirements*

- During the March 2019 meeting, the Task Force will seek the Board's views on and support for the following three key policy proposals:
  - That the [revised and restructured Code](#) should include requirements that prohibit firms and network firms from providing NAS to audit clients that are public interest entities (PIEs) if the outcome of that service might be included directly or indirectly in the financial statements, and the service creates, or might create, a self-review threat.
    - This approach will result in the withdrawal of the provisions that currently allow firms and

network firms the flexibility to determine whether to provide NAS that creates or might create self-review threats to audit clients that are PIEs in circumstances when the firm determines that:

- The outcome of the service would not be material to the financial statements on which the firm will express an opinion; and
  - The threat to independence that is created by providing the NAS is either eliminated, or reduced to an acceptable level, by applying safeguards.
- (b) That the distinction in the NAS provisions in the Code for audit clients that are PIEs and audit clients that are not PIEs should be maintained.
- Most of the Task Force's proposals are intended to strengthen the NAS provisions that apply to audits of PIEs.
  - The Task Force believes providing a NAS service to an audit clients that are PIEs might be perceived to result in a higher level of a threat to independence in appearance because PIEs have a large number and wide range of stakeholders and because of the nature of the business.
- (c) That the Code should include explicit provisions regarding auditor communication with those charged with governance (TCWG) about NAS matters, including a requirement for firms and network firms of audit clients that are PIEs to obtain pre-approval from TCWG for the provision of NAS to audit clients.

#### *Clarifications and Structural Matters*

10. The exercise of drafting proposed revisions to Section 600 has highlighted the following matters on which the Board's advice is also sought:
- (a) Should Section 600 be drafted so that it sets out how the conceptual framework should be applied when considering the implications of accepting a NAS engagement?
- The Task Force's proposed revisions are aligned to the conceptual framework set out in Section 120<sup>4</sup> and generally conform to the drafting convention for the Code.<sup>5</sup> However, in some instances, the Task Force's proposals repeat certain provisions that are included in the conceptual framework and the general sections of the Code for emphasis.
  - The Task Force is of the view that its proposed approach will help drive consistency in the way that firms apply the conceptual framework with respect to NAS.

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<sup>4</sup> Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, *The Conceptual Framework*

<sup>5</sup> See the Guide to the Code, paragraphs 6 to 17 that explain how the Code is structured and how to use the Code.

- (b) Should the Code include an illustrative summary list of the services that are prohibited as a result of the new prohibition relating to self-review threats (such as that in paragraph 600.11 A2)?
- The summary list reflects most of the NAS prohibitions for audit clients that are PIEs that are set out in subsections 601 to 610 of the current Code.
  - The Task Force debated the merits and drawbacks of having such a summary list as part of the general provisions in Section 600 of the Code. The viewpoints varied and during the Board meeting the Task Force will seek the Board's views about whether to:
    - Include the proposed summary list of NAS prohibitions in paragraph 600.11 A2, thereby emphasizing the material in the subsections; or
    - Retain the current approach, under which the NAS prohibitions appear only in the relevant subsections.
- (c) Should the Code include general examples of actions that might be safeguards with respect to NAS such as those in paragraph 600.15 A2?
11. The Task Force will seek the Board's views on its proposal to move the existing provisions relating to the assumption of management responsibilities to Section 400<sup>6</sup> of the Code. The Task Force believes that those provisions are relevant to applying the conceptual framework to independence in all circumstances, and should form part of the overarching concepts in the International Independence Standards (see R400.13 to R400.14).
- The Task Force believes that this proposal is responsive to comments from regulators and the Public Interest Oversight Board who have challenged the robustness and clarity of the provisions in the Code relating to assuming management responsibilities, and the related exemption that exists for certain related entities.
  - Following this proposal, Section 600 would retain clarified provisions relating to the provision of advice and recommendations to assist management in discharging their responsibilities when providing a service to audit client (see paragraph 600.16 A1 to R600.18).

#### *Coordination with the Fees Task Force*

12. The Task Force Chair and Staff have liaised with the Chair and Staff of the Fees Task Force, as appropriate, in progressing its work. For example, the proposed new provisions to establish a fee-threshold in the Code incorporate input from the Fees Task Force and is included in paragraph R410.21<sup>7</sup> of the preliminary revisions to Section 410 in **Agenda Item F-2**.

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<sup>6</sup> Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

<sup>7</sup> Part 4A, Section 410, *Fees*

**Matters for CAG Consideration**

13. At its March 2019 meeting, the CAG will receive a presentation summarizing the Task Force's key policy decisions/ proposals. To demonstrate the implications of those proposals, the CAG is asked to consider the preliminary draft of proposed revisions to the Code in **Agenda Item E-1**.
14. Representatives will be asked to:
  - (a) Note the report back in paragraph 7.
  - (b) Consider and react to the presentation and matters that will be discussed by the Board at the IESBA March 2019 meeting in paragraph 8-12 of this paper.
  - (c) Indicate whether they believe that all NAS issues set out in the NAS project proposal are being appropriately dealt with.
  - (d) Provide views about any other matters that Representatives believe should be dealt with in a NAS project.

**Materials Presented**

Agenda Item E-1      Proposed NAS Revisions to Code (clean version)

**Material Presented – FOR IESBA CAG REFERENCE PURPOSES ONLY**

[Approved NAS Project Proposal](#)

### Highlights of the Task Force's Proposals<sup>8</sup>

#### *For PIEs Only*

- New prohibition for NAS if outcome might be included directly or indirectly in financial statements and might create self-review threats (para. R600.11)
- New requirement for firms to obtain pre-approval for NAS from TCWG (para. R600.21)
- New provisions to re-evaluate threats to independence when the ratio of NAS to audit fees reach a particular threshold (see R410.21 of **Agenda Item F-2**).
- Withdrawal of exception relating to accounting and bookkeeping services which was included in paragraph R601.7 of the current Code.
- Withdrawal of materiality as a “qualifier” in prohibitions for specific types of services (e.g., see para. R603.5).
- Clarity about the periods for which independence is required (paras. 600.25 A1 to 600.26 A1)

#### *For PIEs and Non-PIEs*

- New provisions to enhance and encourage auditor communication with TCWG about NAS (paras. 600.19 A1 to 600.20 A1).
- Repositioned provisions relating to management responsibilities to enhance clarity (paras. R400.13 to R400.15 and R600.27).
- Further clarifications for applying the conceptual framework for NAS, including:
  - New guidance for identifying threats, including a new description of self-review threat in the context of NAS (paras. 600.9 A1 to 600.10 A4).
  - Explicit requirements for evaluating and addressing NAS threats to independence (paras. R600.12 and R600.14 to R600.15).
- Strengthen provisions for situations in which firm provides multiple NAS to the same audit client. Application material is now elevated to a requirement and new application material for considering the combined effects of threats is added (paras. R600.13 to 600.13 A1).
- New application material with general examples of actions that might be safeguards with respect to NAS (para 600.15 A2).

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<sup>8</sup> Except where otherwise noted, the paragraph references are to the proposed text in **Agenda Item E-1**.

## Project History

### Project: Non-assurance Services

#### Summary

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