



IESBA Exposure Draft:
'Proposed Revisions to the Non-Assurance
Services Provisions of the Code'

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Introduction

ICAS is a professional body for more than 22,000 world class business men and women who work in the UK and in more than 100 countries around the world. Our members have all achieved the internationally recognised and respected CA qualification (Chartered Accountant). We are an educator, examiner, regulator, and thought leader.

Almost two thirds of our working membership work in business; many leading some of the UK's and the world's great companies. The others work in accountancy practices ranging from the Big Four in the City to the small practitioner in rural areas of the country.

We currently have around 3,000 students striving to become the next generation of CAs under the tutelage of our expert staff and members. We regulate our members and their firms. We represent our members on a wide range of issues in accountancy, finance and business and seek to influence policy in the UK and globally, always acting in the public interest.

ICAS was created by Royal Charter in 1854. The ICAS Charter requires its Boards to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

The ICAS Ethics Board has considered the IESBA Exposure Draft: 'Proposed Revisions to the Non-Assurance Services Provisions of the Code' and I am pleased to forward its comments.

Any enquiries should be addressed to Ann Buttery, ICAS Head of Ethics.

Key Points

Overall, we are generally supportive of IESBA's proposals as outlined in the above Exposure Draft. The accountancy profession has a duty to act in the public interest. It is important that IESBA is seen to be addressing concerns that auditor independence could be compromised as a result of the provision of non-assurance services to their clients.

We support the proposal to establish a self-review threat prohibition for the auditors of Public Interest Entities (PIEs) as proposed in paragraph R600.14. We agree that, when an audit client is a PIE, stakeholders have heightened expectations regarding the audit firm's independence. We also support the proposal to withdraw the materiality qualifier in relation to certain Non-Assurance Services (NAS) prohibitions for audit clients that are PIEs.

We also support the provisions that prohibit firms and network firms from assuming a management responsibility being given more prominence in Section 400 of the Code (rather than being situated in Section 600), which also clarifies that the prohibition applies generally to all aspects of the relationship between a firm or network firm and an audit client, and not only in the case of the provision of NAS.

However, we believe the proposed application material in 600.11 A2 has the potential to create more confusion than assistance to users of the Code when they are considering whether the provision of a NAS to an audit client will create a self-review threat. We believe it would be better to keep to the simple, high-level principles, in order to avoid misunderstandings.

We also believe that clarity could be improved by amending the "Materiality in relation to financial statements" paragraph at 600.15 A1 to explain that the concept of materiality is retained as an example of a factor that a firm considers in evaluating the level of an identified threat, although there are certain situations in the NAS provisions where a service cannot be provided even if the outcome or result of the service is immaterial.

We also suggest that additional application material is needed in paragraph 600.12 A1 in relation to advice and recommendations as the paragraph is currently very generic.

Responses to the Specific Questions

Prohibition on NAS that Will Create a Self-review Threat for PIEs

1. Do you support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14?

Yes – we support the proposal to establish a self-review threat prohibition for the auditors of PIEs as proposed in paragraph R600.14. We agree that, when an audit client is a PIE, stakeholders have heightened expectations regarding the firm's independence.

The accountancy profession has a duty to act in the public interest. It is important that IESBA is seen to be addressing concerns that auditor independence could be compromised as a result of the provision of non-assurance services to their audit clients.

2. Does the proposed application material in 600.11 A2 set out clearly the thought process to be undertaken when considering whether the provision of a NAS to an audit client will create a self-review threat? If not, what other factors should be considered?

We believe that the additional application material in 600.11 A2 has the potential to create more confusion than assistance to users of the Code. We believe it would be better to keep to the simple, high-level principles, in order to avoid misunderstandings.

For example, we believe 600.11 A2 (b) in particular has the potential to confuse: "In the course of the audit of those financial statements, the results of the service will be subject to audit procedures". This could be interpreted as meaning it is only the results of those services that the auditor determines to be material that create a self-review threat, but this is then contradicted by the new requirement in paragraph R400.14 which states that materiality does not apply to PIEs in relation to self-review threats i.e. if a self-review threat is identified, regardless of the extent to which the outcome of the service will have a material effect on the financial statements, the provision of the NAS is not permitted.

We believe that clarity could be improved by amending the "Materiality in relation to financial statements" paragraph at 600.15 A1 to reflect more of the discussion on materiality in paragraphs 10, and 42 to 44, of the Explanatory Memorandum. The Explanatory Memorandum explains that the concept of materiality is retained as an example of a factor that a firm considers in evaluating the level of an identified threat, although there are certain situations where the materiality qualifier is withdrawn.

However, paragraph 600.15 A1 does not give any indication that there are certain circumstances in the NAS provisions where a service cannot be provided even if the outcome or result of the service is immaterial. We believe it would be helpful to have a signpost in paragraph 600.15 A1 to this effect. For example, see below:

"Materiality in Relation to Financial Statements

600.15 A1 **Materiality is a factor that is relevant in identifying and evaluating threats created by providing a non-assurance service to an audit client.** Subsections 601 to 610 refer to materiality in relation to an audit client's financial statements. The concept of materiality in relation to an audit is addressed in ISA 320, Materiality in Planning and Performing an Audit, and in relation to a review in ISRE 2400 (Revised), Engagements to Review Historical Financial Statements. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

600.15 A2 There are certain circumstances in the following subsections 601 to 610 where a service cannot be provided even if the outcome or result of the service is immaterial:

- **As set out in R600.14, in the case of audit clients that are public interest entities, if a self-review threat is identified, firms and network firms are not permitted to provide a non-assurance to an audit client even if the outcome or result of the non-assurance service is immaterial or not significant to the financial statements on which the firm will express an opinion.**
- **In relation to the provision of certain tax services (Subsection 604) and Corporate Finance Services (Subsection 610)."**

Additionally:

Paragraph R604.19

We note that in R604.19 there appears to be an exception to the self-review threat prohibition in R600.14 for public interest entities re valuations for tax purposes when the valuations do not involve a significant degree of subjectivity:

“R604.19 A firm or a network firm shall not perform a valuation for tax purposes for a public interest entity if the provision of that service will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion, unless: (a) The underlying assumptions are either established by law or regulation, or are widely accepted; or (b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority.”

However, in the Valuation subsection, at R603.5, there is a prohibition on valuation services for public interest entities. There is also a prohibition on valuations for non-PIEs unless the valuation does not involve a significant degree of subjectivity (paragraphs R603.4 and 603.4 A1).

If there is going to be an exception to the R600.14 rule under certain circumstances, we believe it would be beneficial to users of the Code for this to be highlighted in Section 600.

Providing Advice and Recommendations

3. Is the proposed application material relating to providing advice and recommendations in proposed paragraph 600.12 A1, including with respect to tax advisory and tax planning in proposed paragraph 604.12 A2, sufficiently clear and appropriate, or is additional application material needed?

We believe that additional application material is needed in paragraph 600.12 A1 in relation to advice and recommendations as the paragraph is currently very generic.

The paragraph alludes to management responsibilities in relation to advice and recommendations however we believe the management responsibilities paragraphs in Section 400 (400.13 and 400.14) should be specifically highlighted in paragraph 600.12 A1.

Examples might also be helpful in terms of what the IESBA would consider to be the nature of advice and recommendations that might create a self-review threat. For example:

- if a range of recommendations are provided by the firm and the client makes the ultimate judgement as to the course of action, does this create a self-review threat because the firm made the recommendation in the first instance, even although it was provided within a range of recommendations?
- Internal control recommendations are part of the audit work to assist the client to improve its processes – would this be considered a self-review threat?

We would also suggest the following change to paragraph 600.12 A1 to clarify the wording:

“600.12 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in 600.11 A2. This includes considering the nature of the advice and recommendations and how such advice and recommendations might be implemented by the audit client. **Where the audit client is not a public interest entity and a self-review threat is identified, the firm is required to address the threat by application of the conceptual framework (reference paragraphs 600.16A1 to 600.16 A4) If a self-review threat is identified, application of the conceptual framework requires the firm to address the threat where the audit client is not a public interest entity.** If the audit client is a public interest entity, paragraph R600.14 applies.”

We also note that in Section 400 paragraph 400.13 A4 states: “Subject to compliance with paragraph R400.14, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility.” We would suggest that perhaps an additional sentence is required in this paragraph to highlight that providing advice and recommendations might create a self-review threat. See response to Question 8 below.

Project on Definitions of Listed Entity and PIE

4. Having regard to the material in section I, D, “Project on Definitions of Listed Entity and PIE,” and the planned scope and approach set out in the approved project proposal, please share your views about what you believe the IESBA should consider in undertaking its project to review the definition of a PIE.

We welcome the IESBA’s acceleration of its “Project on Definitions of Listed Entity and PIEs” in coordination with the IAASB. We believe that an alignment of the definitions in the Code and in the ISAs will be beneficial. We would suggest IESBA try to keep the definitions as simple as possible to try to assist with implementation. We also acknowledge that ultimately it will be for each jurisdiction to determine what is to be categorised as a PIE. IESBA can only establish high-level principles setting out the key criteria against which each jurisdiction should benchmark.

In terms of the NAS provisions within the Code, we are supportive of IESBA continuing to include subheadings that distinguish those provisions that apply to: (i) all audit clients; (ii) audit clients that are not PIEs; and (iii) audit clients that are PIEs.

Materiality

5. Do you support the IESBA’s proposals relating to materiality, including the proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs (see Section III, B “Materiality”)?

We support the IESBA’s proposals relating to materiality, although note the comments in our response to Question 2.

We also support IESBA’s proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs.

In addition, as per our response to Question 6 below, we also support the withdrawal of the materiality qualifier for all audit clients when: (i) the effectiveness of certain types of tax advice or corporate finance advice is dependent on a particular accounting treatment or presentation; and (ii) the audit team has doubt about the appropriateness of that treatment or presentation

As noted earlier, the accountancy profession has a duty to act in the public interest. In recent years there has been a decline in public trust and an increase in public skepticism in business, in many of our institutions, and in the audit process, with the independence of auditors being called into question. Auditors not only need to be, but also need to be seen to be, independent from their audit clients.

There is a need to enhance public trust in the audit process, and we believe that there is a need for IESBA to be taking steps to address these concerns. We note that in the UK FRC’s Revised Ethical Standard 2019, the auditor of a public interest entity is now only permitted to provide certain non-audit services which are closely linked to the audit itself or required by law or regulation.

6. Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of materiality:

- **Tax planning and tax advisory services provided to an audit client when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R604.13)?**
- **Corporate finance services provided to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R610.6)?**

Yes, we support the proposal to prohibit these NAS for all audit clients, irrespective of materiality.

Communication with TCWG

7. Do you support the proposals for improved firm communication with TCWG (see proposed paragraphs R600.18 to 600.19 A1), including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE (see proposed paragraph R600.19)?

Yes – we support the proposals for improved firm communication with TCWG, including the requirement to obtain concurrence for the provision of NAS to an audit client that is a PIE.

We note that the UK Corporate Governance Code requires listed companies to establish an audit committee of independent non-executive directors which, amongst other matters, is required to oversee the company's relations with its external auditors including: "developing and implementing policy on the engagement of the external auditor to supply non-audit services, ensuring there is prior approval of non-audit services, considering the impact this may have on independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the board on any improvement or action required".

However, to clarify how paragraph 400.20 relates to paragraphs R600.18 and R600.19 (and as discussed in paragraph 57 of the Explanatory Memorandum) we suggest the wording could be improved as follows:

R600.18 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client that is a public interest entity ~~which, for this purpose, shall include only related entities over which the audit client has direct or indirect control~~, the firm shall provide those charged with governance with sufficient information to enable them to make an informed decision about the impact of the provision of such a non-assurance service on the firm's independence. **For this purpose, this relates to non-assurance services provided by the firm and network firms to the audit client and related entities over which the audit client has direct or indirect control.**

Other Proposed Revisions to General NAS Provisions

8. Do you support the proposal to move the provisions relating to assuming management responsibility from Section 600 to Section 400, and from Section 950 to Section 900?

Yes – we support the proposals to move the provisions relating to assuming management responsibility.

As noted in our response to Question 3, Paragraph 400.13 A4 states: "Subject to compliance with paragraph R400.14, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility."

We suggest that it might also be helpful to provide a link to paragraph 600.12 A2 in Section 400 that providing advice and recommendations might create a self-review threat - either at paragraph 400.13 A4 or paragraph 400.13 A2 as noted below:

Paragraph 400.13 A4: Subject to compliance with paragraph R400.14, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. **However, providing advice and recommendations to management of an audit client might create a self-review threat (ref 600.12 A2).**

Or, alternatively:

Paragraph 400.13 A2: When a firm or a network firm assumes a management responsibility for an audit client, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interest of management. **In addition, providing advice and recommendations to management of an audit client might create a self-review threat (ref 600.12 A2).**

9. Do you support the proposal to elevate the extant application material relating to the provision of multiple NAS to the same audit client to a requirement (see proposed paragraph R600.10)? Is the related application material in paragraph 600.10 A1 helpful to implement the new requirement?

Yes – we support the proposal to elevate extant application material relating to the provision of multiple NAS to the same audit client to a requirement.

Proposed Revisions to Subsections

10. Do you support the proposed revisions to subsections 601 to 610, including:

- **The concluding paragraph relating to the provision of services that are “routine or mechanical” in proposed paragraph 601.4 A1?**

We query whether the concluding paragraph in 601.4 A1 should refer to the firm and network firm:

“601.4 A1 **The firm and network firm** may provide such services to audit clients that are not public interest entities provided that **the firm and network firm** complies with the requirements of R400.14 to ensure that it does not assume management responsibility in connection with the service and with the requirement in R601.4 (b)”

Also in relation to Subsection 601 - Accounting and bookkeeping services – we note the following:

Paragraph 601.2 A2

At the end of paragraph 601.A2 the following is stated:

“These activities do not usually create threats as long as the client accepts responsibility for making the decisions involved in the preparation of accounting records or financial statements and **the firm** does not assume a management responsibility.”

The equivalent to this paragraph in the extant Code, paragraph 601.3 A4, states: “Such services do not usually create threats provided neither **the firm nor network firm** assumes a management responsibility for the client.”

Should this paragraph continue to refer to the firm and network firm?

Paragraph 601.2 A3 – Description of service

It would seem more logical to move the “Description of Service” paragraph to the start of the Requirements and Application material within this subsection, which would also be in line with the other subsections.

- **The withdrawal of the exemption in extant paragraph R601.7 that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if certain conditions are met?**

Yes – we agree with the withdrawal of the exemption in extant paragraph R601.7 as it is consistent with the principle set down in R600.14.

- **The prohibition on the provision of a tax service or recommending a tax transaction if the service or transaction relates to marketing, planning or opining in favor of a tax treatment, and a significant purpose of the tax treatment or transaction is tax avoidance (see proposed paragraph R604.4)?**

Yes – we agree with the proposal in paragraph R604.4.

- **The new provisions relating to acting as a witness in subsection 607, including the new prohibition relating to acting as an expert witness in proposed paragraph R607.6?**

Yes – we agree with proposed paragraph R607.6 as it is consistent with the principle set down in R600.14.

Proposed Consequential Amendments

11. Do you support the proposed consequential amendments to Section 950?

We note that extant Section 950 contains provisions in relation to Prohibition on Assuming Management Responsibilities (paragraphs R950.6 and 7), however there is now no reference to management responsibilities in Section 950. We believe it would be helpful to have a paragraph (similar to paragraph 600.7A1) in Section 950 referencing to the relevant paragraphs in Section 900 i.e. R900.13 and R900.14.

12. Are there any other sections of the Code that warrant a conforming change as a result of the NAS project?

Technology related non-assurance services

We welcome the proposals in the IESBA Technology Working Group in its Phase 1 report in relation to technology related non-assurance services. IESBA should ensure that the Technology Working Group proposals in relation to non-assurance services are consulted on and agreed prior to the non-assurance services amendments to the Code becoming effective. They should also have the same applicable date.

Suggestions for drafting clarifications

We also note the following:

Paragraph R600.8 - "Accepting an Engagement to Provide a Non-Assurance Service"

We believe it would be more logical to have paragraph R600.8 "Accepting an Engagement to Provide a Non-Assurance Service" at the start of the "Requirements and Application Material - General" section, as it is in the extant Code.

Paragraph 600.7 A1 – Prohibition on assuming management responsibilities

We agree with the inclusion of the "*Prohibition on assuming management responsibilities*" paragraph 600.7 A1; however, the paragraph does not mention the prohibition other than in the title.

For completeness, we would specifically mention the prohibition in the paragraph by, for example, adding in a sentence at start of the paragraph as below.

"600.7 A1 Prohibition on Assuming Management Responsibilities

In accordance with para R400.13, a firm or network firm shall not assume a management responsibility for an audit client. When a firm or network firm provides a non-assurance service to an audit client, including providing advice and recommendations as part of such a service, there is a risk that a firm or a network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in R400.14 have been complied with."

Paragraph 600.9 A1 – Identifying and Evaluating Threats – All Audit Clients

We suggest it would be helpful to signpost the specific requirements when there is a self-review threat in this paragraph, for example, as below:

"600.9 A1 A description of the categories of threats that might arise when a firm or network firm provides a non-assurance service to an audit client is set out in 120.6 A3. **In addition, specific provisions for non-assurance services where there is a self-review threat are set out at paragraphs 600.11 A1 to R600.14."**

Paragraphs 603.2 A2 and 604.17 A2 - Valuations for tax purposes

We note that the application material in paragraphs 603.2 A2 and 604.17 A2, in the Valuation and Tax Services subsections respectively, both relate to the situation when a firm or network firm performs a valuation for tax purposes. However, we believe paragraph 604.17 A2 is clearer than 603.2 A2 and therefore it might be helpful if the wording in paragraph 604.17 A2 is replicated in paragraph 603.2 A2.