



15 August 2014

International Ethics Standards Board for Accountants  
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Dear Board Members:

**Re: Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients.**

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Thank you for the opportunity to share our view on the captioned subject.

The proposed changes would have met our expectation if the door was closed forever for rendering non-assurance services to an audit client<sup>1</sup> by any firm, irrespective of size. Unrealistic? May be, but are we not surrounded today by changes that must have appeared unrealistic to many at some point of time?

The auditors should be allowed to be auditors only. When an audit firm accepts an audit engagement, it should not be allowed to accept anything; remain within this boundary and a lot gets simplified.

Its time for the firms to move over from the tradition of providing non-audit assurance services to the assurance client as an unhealthy one for public interest; it may be good for livelihood but not for the expectation gap.

The assurance and non-assurance services of any nature should not be rendered to the same client by a single firm. This simple change would redundant most of the text in Sections 290 & 291.

The Board should have learned from the EU legislation on the subject which is much potent<sup>2</sup>.

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<sup>1</sup>In the case of audit engagements, it is in the public interest and required by the Code that members of audit teams, firms and network firms remain independent in mind and appearance of audit clients. This allows the auditor to act with integrity, and exercise objectivity and professional skepticism. See Explanatory Memorandum under the heading "Background", first para. Further ahead, we question: how can this be not so for not public interest entities?

<sup>2</sup>REGULATION (EU) No 537/2014 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 April 2014. On 27 May 2014, the directive amending the Statutory Audit Directive and a new regulation regarding the statutory audit of public interest entities were published in the Official Journal. Member states will be required to adopt the necessary measures to implement the directive by 17 June 2016. <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2014:158:FULL&from=EN>



We do not consider proposed changes to be “a rigorous approach to independence for assurance services”<sup>3</sup>, as we explain ahead.

The Board should face the truth in its full measure and prefer public interest over the vested interest of the professional firms. Overhaul will do, but not these one-bandage-needing-another type changes.

Our specific comments are as follows:

#### *Emergency Provisions*

*1. Are there any situations that warrant retention of the emergency exceptions pertaining to bookkeeping and taxation services?*

No. We welcome the withdrawal of the emergency exception provisions related to bookkeeping and taxation services and the conclusions on which it is based.

#### *Management Responsibilities*

*2. Does the change from “significant decisions” to “decisions” when referring to management responsibilities (paragraph 290.162) enhance the clarity of a management responsibility?*

The firm engaged in audit should not be doing non-assurance service for a client.

Subject to above, we take it as a step ahead to restrict auditor from assuming a management responsibility.

We disagree that a firm may provide services related to the preparation of accounting records and financial statements to an audit client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level<sup>4</sup>.

This specially does not make sense when 98% of the businesses are likely to be non-public interest entities<sup>5</sup>. This means that Board has only recommended changes which will impact only 2% and left 98% to go on with the present practices.

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The contents of the survey stated in footnote 2 and the report of IESBA SME/SMP Working Group in footnote 3 of captioned document appears to be outdated.

<sup>3</sup> ibid

<sup>4</sup> 290.171. Contradiction in the text in this para, refer to our response in Q.7.

<sup>5</sup> “According to the Global Alliance of SMEs<sup>1</sup>, SMEs represent more than 98% of all businesses worldwide, play an instrumental role in the socio-economic development of the entire global community and are a major force not only in economic prosperity but also in social stability”. <http://www.globalsmes.org/html/index.php?func=expo2010&lan=en> IESBA SME/SMP Working Group Report, October 2011



Furthermore, what we do not understand is that what threat impact public interest entities are not so for the non-public interest entities? How can it be so?

We know from experience that audit has been the foot in the door for more remunerative assignments. This has been restricted to a certain extent for the public interest entities. Now is the time to do so for the rest. We oppose anything that distracts auditor from being an auditor. Let auditors be auditors only and nothing else.

*3. Are the examples of management responsibilities in paragraph 290.163 appropriate?*

Auditor should not accept any non-assurance service for any client.

For us, anything other than audit involves an element of management in some capacity.

On its own, these examples are reasonable.

*4. Are there any challenges in understanding and applying the prerequisite set out in paragraph 290.165 for non-assurance services that should be considered?*

Yes. Auditor should focus on rendering audit service only. The door for providing non-assurance service to an audit client should be closed forever.

Even otherwise, we fail to see the utility of this approach.

*5. Will the enhanced guidance assist engagement teams to better meet the requirement of not assuming a management responsibility?*

Not applicable.

The auditor should not render any non-assurance service to an audit client. That door should be closed forever.

The client is free to engage any other firm other than its auditor to do just about anything that is legitimate.

*6. Does the relocation of the guidance pertaining to administrative services into its own subsection provide greater clarity?*

Let auditor be auditor.

We find administrative services to be another garb for escaping restrictive services to audit clients. We do not agree.

Routine or Mechanical



*7. Does the proposed guidance on “routine or mechanical” clarify the term, or is additional guidance needed?*

We do not agree with auditors rendering non-audit assurance service to the audit clients.

Here we would also like to point out to an apparent contradiction in the text we have observed in 290.171. It states: “Services that are routine and mechanical in nature require little or no professional judgment from the professional accountant.” Under the examples, it cites the following: “Recording a transaction involving a significant degree of subjectivity, for example the valuation of an asset when the client has been determined the amount to be recorded”.

*8. Is the meaning and identification of source documents sufficiently clear, taking into account documents that may be generated by software?*

Searched the word “software”; appears to have been used only once in the captioned document; in this question only. Either the relevant passage erased or my Adobe Acrobat is corrupt.

Section 291

*9. Do the changes proposed to Section 291, specifically the additional requirements to proposed paragraph 291.146, enhance the clarity of a management responsibility?*

No. The auditor should not render any service other than the audit to the client where the firm is so appointed.

*10. Are the examples of management responsibilities in paragraph 291.144 appropriate?*

This para is identical to 290.163 as in question 3 above.

Refer to our response in question 3 above.

*11. Does the relocation of the guidance pertaining to administrative services provide greater clarity?*

We are not sure. Paras 290.166 and 291.150 are identical.

*Conclusion:*

We do not agree with the Board that “the Code’s provisions concerning non-assurance services are still robust in protecting the public interest.”<sup>6</sup> Let auditor be auditor.

Sincerely,

Altaf Noor Ali Chartered Accountants.

<sup>6</sup> Explanatory Memorandum, under “Background” p.4.