



IESBA - International Ethics Standards
Board for Accountants
529 Fifth Avenue
New York, 10017
USA

5 May 2020

Comment letter relating to the IESBA Exposure Draft on Non-Assurance Services

Dear Sirs,

1. The CEAOB appreciates the opportunity to comment on the IESBA's ("Board") consultation on the *Exposure Draft on Non-Assurance Services* as issued in January 2020. As the organisation representing the audit regulators of the European Union and the European Economic Area, the CEAOB encourages and supports continuing improvement of high-quality auditing through the development of professional standards for the audit profession.
2. The content of this letter has been prepared by the International Auditing Standards Subgroup and has been adopted by the CEAOB. The comments raised in the letter reflect matters agreed within the CEAOB. It is not intended, however, to include all comments that might be provided by the individual regulators that are members of the CEAOB and their respective jurisdictions.
3. As audit regulators, our mandate encompasses the oversight of the independence of statutory auditors, based on the requirements applicable in our respective jurisdictions.
4. The IESBA Code of Ethics is used in several European jurisdictions, but not in all of them. The CEAOB clearly sees an interest in enhancing the Code, as it constitutes a basis for some benchmarks at international level. Moreover, a number of audit firms and networks have voluntarily committed to complying with the IESBA Code.
5. We welcome IESBA's initiative aimed at developing more robust requirements in the Code to protect auditors' independence when providing Non-Assurance Services (NAS) to audit clients. These efforts represent a step forward to enhancing confidence and public trust in the audit profession. Nonetheless, we are of the view that the proposed requirements should be further enhanced in the light of the comments below.
6. Please note that our comments are focused on the provisions of the Code applicable in the case of audit clients that are Public Interest Entities (PIEs) as defined under the European legislation. As you are aware in Europe the provision of non-audit services to an audit client which is a PIE (and their parent undertakings and subsidiaries) is regulated by the Regulation (EU) No 537/2014 (hereafter "European Regulation") applying a comprehensive approach including a list of prohibited non-audit services and a requirement to obtain the approval of the PIE audit committee for non-audit services that are not



prohibited. In addition, some Member States have introduced more stringent requirements at national level. We indicate below the main requirements in the Code that are less stringent than the European Regulation.

7. Our letter does not include comments on the provisions applicable to provision of services to non-PIE audit clients. This should not be interpreted as either approval or disapproval by the CEAOB of the provisions applicable for non-PIE situations.

Self-review threats and related entities

8. We support the proposal in R600.14 prohibiting the provision of NAS to PIE audit clients if a self-review threat will be created. We note that this prohibition, combined with the meaning of related entities defined in R400.20, applies to all related entities of listed entities (including parent undertakings) and only to controlled undertakings for other entities. As a consequence, the prohibition in R600.14 is not applicable to parent undertakings of PIEs other than listed entities. We believe that there should be a consistent approach for all PIEs, which is the current approach in the European legislation. The definition of related entities to be covered by the provisions should be the same for all types of PIEs (whether listed or not).

Accepting an engagement to provide a NAS and multiple NAS provided to the same audit client

9. Along the same lines of the comment above, the requirements in R600.8 and R600.10, when dealing with audit clients that are PIEs should be applicable to the parent undertakings of all PIEs including PIEs other than listed entities. We believe that there should be a consistent approach for all PIEs - which is the current approach in the European legislation.

Communication with Those Charged with Governance (TCWG) regarding Non-Assurance Services and related entities

10. We support the proposals for improved audit firm communication with TCWG (namely to provide TCWG with information about the impact of the provision of NAS on the audit firm's independence and to obtain concurrence from TCWG on the provision of services). In this regard, we are of the view that obtaining concurrence from TCWG could be considered as equivalent to the approval of non-audit services required from the audit committee in the European legislation.
11. However, we note that the new requirements in R600.18 and R600.19 regarding the provision of NAS to an audit client that is a PIE include only related entities over which the audit client has direct or indirect control. Parent undertakings are therefore not subject to these new ED requirements, meaning that NAS can be provided to parent undertakings of PIEs without information being provided to and concurrence obtained from TCWG of those PIEs. In our view, this situation could raise significant threats to independence and we suggest that the requirements in the Code includes all of a PIE's related entities (controlled entities and parent undertakings).

Non-Assurance Services provided in the previous year to an audit client that is a PIE

12. We welcome the requirements in R400.32 (the provision of NAS to a PIE client prior to the appointment as an auditor) and in R600.20 (NAS provided to an audit client that later becomes a PIE). However, in line with the approach taken in the European Regulation, these requirements should recognize that in some cases certain services provided in the previous year will always result in a conflict of interest and so impair the audit firm's ability to be appointed as an auditor or to continue as an auditor (for example designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing a financial information technology system).

Consideration for certain related entities

13. When dealing with audit clients that are PIEs, all the comments above regarding the meaning of related entities in the Code apply to the exceptions permitted in paragraph R.600.21, that in our view should not be applicable to the related entities of PIEs.

Prohibitions and self-review threats

14. Section 600 contains general requirements for the provision of Non-Assurance Services to an audit client. In particular the following requirements are related to the provision of certain specific Non-Assurance Services to an audit client that is a PIE:

- Subsection 601 Accounting and Bookkeeping Services (R601.5)
- Subsection 605 Internal Audit Services (R.605.6)
- Subsection 606 Information Technology Systems Services (R.606.6)

These proposed requirements establish a prohibition to provide specific Non-Assurance Services to an audit client that is PIE if the provision of these services will create a self-review threat in relation to the audit of the financial statements on which an opinion will be expressed. We note that the European legislation prohibits the provision of the above-mentioned services to an audit client that is a PIE in all circumstances¹. Therefore, we invite the IESBA to reconsider the approach proposed in the Exposure Draft and to set more restrictive rules for these services.

15. Furthermore the following requirements are related to the provision of other specific Non-Assurance Services to an audit client that is a PIE:

- Subsection 603 Valuations Services (R603.5)
- Subsection 604 Tax Services (R604.10; R604.15; R604.19; R604.24)

¹ The provision of IT services to PIE audit clients is prohibited with respect to systems relevant to the preparation and/or control of financial information.



These proposed requirements establish a prohibition to provide specific Non-Assurance Services to an audit client that is a PIE if the provision of these services will create a self-review threat in relation to the audit of the financial statements on which an opinion will be expressed. We note that the European legislation prohibits the provision of the above mentioned services to an audit client that is a PIE allowing Member States to derogate from such rules provided that certain stringent conditions are met. We believe that the Code should only allow such services in cases where law or regulation expressly allows such services, similar to the approach in the European Regulation.

16. In addition we note that Subsection 608-Legal Services of the Code, prohibits an auditor from acting as general counsel or in an advocacy role for a PIE audit client. This is consistent with the prohibitions in the EU Regulation. However, the EU Regulation also prohibits auditors from providing legal services with respect to negotiating on behalf of a PIE audit client, which is a very clear rule in order to avoid any threat to independence for PIEs auditors. We would encourage the IESBA to consider including such a provision in the Code.
17. R610.8 establishes a prohibition to provide Corporate Finance Services to an audit client that is a PIE if the provision of these services will create a self-review threat. Application material 610.2 A1 provides examples of corporate finance services that include assisting an audit client in developing corporate strategies; identifying possible targets for the audit client to acquire; advising on the potential purchase or disposal price of an asset; assisting in finance raising transactions; providing structuring advice; providing advice on the structuring of a corporate finance transaction or on financing arrangements. These services appear to be similar to the services prohibited by the EU Regulation (services linked to the financing, capital structure and allocation, and investment strategy of the audited entity) and therefore we invite the IESBA to reconsider the proposed approach and to set more restrictive rules for these services.
18. Subsection 609 of the Code deals with recruitment services that are prohibited and states that when providing those services to an audit client, the firm shall not act as a negotiator on the client's behalf. In the European Regulation, in addition to some recruitment services, human resources services with respect to structuring the organisation design and cost control are also prohibited in all circumstances. We encourage the Board to include further prohibitions in the Code in this regard.

Safeguards

19. We support the proposal to provide examples of safeguards that could be applied to address risks on independence. However, we do not believe that, in the absence of other safeguards, the use of "professionals who are not members of the firm's audit team" to provide the Non Assurance Services would be a sufficient safeguard to mitigate threats in all cases (as mentioned in several instances in the ED e.g., in relation to advocacy threats). We invite the IESBA to highlight the fact that this provision alone would not be a sufficient safeguard and should be part of a range of measures taken by the auditor.



COMMITTEE OF
EUROPEAN
AUDITING
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Please do not hesitate to contact me or the Chair of the CEAOB International Auditing Standards Subgroup, if you have any questions on the content of this letter.

Yours faithfully,

Ralf Bose
Chairman