

August 14, 2014

Interim Chair  
International Ethics Standards Board for Accountants  
545 Fifth Avenue, 14th Floor  
New York, New York 10017

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

Dear Members of the International Ethics Standards Board for Accountants:

We appreciate the opportunity to provide comments on the proposed changes to the *Code of Ethics for Professional Accountants* (“Code”) as described in the Exposure Draft “*Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients*” (“ED”) issued May, 2014 by the International Ethics Standards Board for Accountants (“IESBA” or “Board”).

## **General Comments**

We support the Board’s objective of maintaining a Code that remains credible and relevant in a constantly evolving global environment. We also support the Board’s effort to provide clarity to and strengthen the Code wherever possible, where such efforts add consistency in the interpretation of the Code across the profession. Nonetheless, we urge the Board to balance the expected incremental benefits of the revisions being considered with the potential for undermining or delaying convergence efforts.

As noted in our comment letter dated February 28, 2014, in response to the Board’s “Consultation Paper: Proposed Strategy and Work Plan, 2014-2018”, we believe that the Board should be looking beyond its current focus on standard setting to provide both a period of stability for the existing Code and also ensure more time is dedicated to outreach, promotion of the Code and convergence and adoption activities.

We believe further changes to the Code should be considered only if there is sufficient objective evidence that the current provisions or safeguards are not effective, or other key factors are met, such as those outlined in the Proposed Strategy and Work Plan. The current non-assurance services provisions were significantly revised in the Code that became

effective in 2011, and we need to recognize that many member bodies have not yet adopted those changes.

The Explanatory Memorandum notes that the proposed changes are intended to clarify and strengthen the non-assurance services provisions concerning management responsibilities, the phrase “routine or mechanical” as it pertains to the provision of accounting and bookkeeping services, and the “emergency exception” provisions related to bookkeeping and taxation services. As noted in our previous comment letter, it is not entirely clear on what basis the Board decided to prioritize further revisions to this area. In addition, we believe there are instances where the chosen language may have unintended consequences and where further clarity is recommended.

Our comments to the questions raised in the ED are provided below.

### **Specific Comments**

#### **Emergency Provisions**

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

We are not aware of any situations that would warrant retaining the emergency exception related to bookkeeping and taxation services in the Code. We agree that any emergency exceptions to the independence provisions could be addressed with a local regulator or through the application of paragraph 100.11 of the Code.

#### **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?**

We believe the deletion of the word “significant” increases clarity in that it removes the need to apply professional judgment in determining what is a significant versus an insignificant decision. However, the Code recognizes the professional accountant must exercise judgment in identifying and evaluating threats to compliance with the fundamental principles of independence. We are concerned the removal of the ability to apply judgment in situations where the particular circumstances may not in fact create any significant threat to independence may have unintended consequences. We also feel the examples of what would be considered to be a management responsibility could be enhanced in order to make the overall guidance more useful. See our response to question 3 for further details.

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

While it is useful to provide examples of management responsibilities, there are a number of cases where the language should be further clarified or expanded. For example:

- It is not clear what is meant by the example "Supervising activities for the purpose of management oversight." It should be clear that undertaking a supervisory activity would be considered a management responsibility only if undertaken on behalf of management. We therefore suggest amending the proposed example to "Supervising activities in an ongoing oversight role on behalf of management."
- With respect to the example "Setting policies and strategic direction", we believe that additional explanatory language should be included to clarify the audit firm could advise the client as management develops policies and strategic direction, but the audit firm could not make any management decisions on which policies to adopt and strategic direction to take.

We do not agree with the removal of the word "generally" in the lead-in to the bullets in paragraph 290.163. This deletion removes the ability for any judgment to be exercised in situations where the particular circumstances may not in fact create any significant threat to independence. Moreover, we believe that creating a "blacklist" of activities that are considered to be prohibited management responsibilities, without any consideration of the significance or circumstances of the activity, may lead to unintended consequences.

For example, the Board has proposed adding a prohibition on the audit firm having control of a client bank account in all circumstances. We agree in principle that the audit firm should not have control of an audit client's bank account. However there are several jurisdictions in which serving as the liquidator in the solvent liquidation of a related entity of an audit client is a permissible service and is not considered to create significant threats to independence, provided certain safeguards are in place. In this situation, the audit firm may have legal control of a client bank account even though it holds no funds. In such circumstances it is unclear how such an activity would impair independence.

Another example is the prohibition on directing and supervising the actions of employees; this would seem to preclude an audit firm from using internal auditors to provide direct assistance under the direction, supervision and review of the external auditor, which is a permitted activity when undertaken in compliance with ISA 610. We suggest that the Board clarify that this is not the intention of the proposed example by considering the following updated language: "Directing, supervising or taking responsibility for the actions of employees in relation to the employees' work for the entity except to the extent permitted when using internal auditors to provide direct assistance under auditing or assurance standards."

Additionally, the same example as currently drafted may indicate a prohibition on an audit firm being engaged to act as a project manager with respect to an audit client project and it is not known if this was the intention of the Board. We do not consider that a professional engagement to provide project management expertise to an audit client should be deemed a

prohibited activity as long the threats to independence are evaluated and the necessary safeguards are in place.

Finally, we suggest that the Board consider amending paragraph 290.164 as follows: “Subject to compliance with paragraph 290.165, providing advice and recommendations to assist management in ~~discharging~~ performing its responsibilities is not assuming a management responsibility.”

**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?**

For the most part, we agree with management’s requirements in connection with non-assurance services provided by a firm. However, we recommend amending paragraph 290.165 as follows to provide a firm with useful guidance to better meet the requirement of not assuming a management responsibility: “The risk of the firm inadvertently making any significant judgments or decisions on behalf of management is reduced when the firm gives the client an objective and transparent analysis and presentation of the issues. As such, when providing non-assurance services to an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the responsibility of management.”

Additionally, the final point requires that management “accepts responsibility for the actions to be taken arising from the results of the services.” In some cases, a specific action might not take place, and instead the results provided by the audit firm would need to be interpreted by management with potentially no further action required. Accordingly, we recommend this sentence is reworded to state “accepts responsibility for the actions, if any, to be taken arising from the results of the services or the interpretation thereof.”

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

While it is useful to have additional examples of what may be considered to be a management responsibility, as stated above, further explanatory language about what would be generally be permissible and what would generally not be permissible would promote these efforts even further.

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

The mere relocation of a paragraph from one section of the Code to its own subsection does not necessarily provide further clarity. The description of what is considered to be an administrative service is of greatest use to the profession.

**Routine or Mechanical**

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

The replacement of the statement in current paragraph 290.164 that “Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility” with paragraph 290.166 describing “administrative services” which will not generally create a threat to independence is more useful to an auditor. However, the paragraph as currently drafted does not explicitly state that when performing such services, a firm may not assume a management responsibility or make any decisions on behalf of management. We are proposing the following revised language to make this more explicit: “Such services require little to no professional judgment and are clerical in nature. Additionally, when providing these services, a firm does not make any decisions on behalf of the client nor does it assume any management responsibilities.”

We are questioning other services throughout the Code that are described as routine and mechanical. Specifically, in paragraph 290.171 the reason for the services being permissible (i.e., they are routine and mechanical) may need to be amended or the following examples may need clarity or removed all together:

- The following three examples appear to be duplicative: “Recording transactions of a routine nature such as a utility bill for which the client has determined or approved the appropriate account classification,” “Recording a transaction involving a significant degree of subjectivity, for example the valuation of an asset when the client has determined the amount to be recorded,” and “Posting client-approved entries to the trial balance.” We are suggesting that these three be combined into one example such as “Recording a transaction or journal entry that has been approved by the client.”
- It is arguable whether “Preparing financial statements based on information in the client-approved trial balance” would always be considered to be routine or mechanical in nature as such preparation often requires professional judgment. Therefore, additional guidance around management’s responsibilities for the financial statements would be helpful such as:
  - Assessing the entity’s ability to continue as a going concern
  - Making accounting estimates, including responsibility for the underlying assumptions used in the estimate.
  - Ensuring that the disclosures in the financial statements are appropriate and in compliance with the financial reporting framework.
  - The identification of subsequent events, etc.

Additionally, it is recommended that the preparation of the footnotes be addressed by amending the language in paragraph 290.171 as follows: “Preparing financial statements based on information in the client-approved trial balance and preparing the related notes based on client-approved records.”

Finally, we suggest the Board consider deleting paragraph 290.185 because this is in fact not a taxation service. We are suggesting that paragraph 290.172 be amended as follows: “A firm

shall not provide to an audit client that is a public interest entity accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements. Notwithstanding this prohibition, a firm may prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries if the amounts are immaterial to the financial statements on which the firm will express an opinion.”

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

Yes.

**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?**

Our response to question 4 above would also be applicable to Section 291.

We also note that the word “significant” was not deleted in paragraph 291.143, whereas it was deleted in the corresponding paragraph 290.162. It is unclear whether this is an error or whether the Board intended that the significance of the decision be relevant when defining management responsibilities in respect of the provisions of assurance services to non-audit clients.

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

Refer to our commentary in response to question 3 above

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

As noted previously, the mere relocation of a paragraph from one section of the Code to its own subsection does not necessarily provide further clarity into what is a management responsibility. We consider that our previous comments regarding ways in which to add further clarity in the area of administrative services is applicable to Section 291 of the Code as well.

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We would be pleased to discuss our comments with members of the IESBA or its staff. If you wish to do so, please feel free to contact Wally Gregory, Managing Director of Global Independence, via email ([wgregory@deloitte.com](mailto:wgregory@deloitte.com)) or at +1 203 761 3190.

Sincerely,

A handwritten signature in cursive script that reads "Deloitte Touche Tohmatsu Limited".

Deloitte Touche Tohmatsu Limited