

Mr. Ken Siong
International Ethics Standards Board for Accountants
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

18 August 2014

Dear Mr. Siong:

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

We are pleased to comment on the Exposure Draft, *Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients* and we are generally supportive of changes intended to clarify and strengthen the non-assurance services provisions concerning:

- Management responsibilities;
- The phrase “routine or mechanical” as it pertains to the provisions of accounting and bookkeeping services; and
- The “emergency exception” provisions related to bookkeeping and taxation services.

11 specific topics and five general topics were identified on which the Board particularly welcomed respondents' views and we have organized our response accordingly. Our comments are set out below.

Emergency Provisions

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

We support the removal of the emergency exception provisions in the bookkeeping and taxation services sections that permit the auditor to perform otherwise prohibited services for audit clients that are public interest entities (PIEs) and cannot identify any situations that would warrant retention of these provisions. We believe that the international market for accounting services is sufficiently well developed that companies are able to obtain adequate assistance from alternative providers when emergency situations arise. We also note that, with respect to immaterial subsidiaries, the Code continues to allow certain bookkeeping and tax accounting services in any situation.

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 do not support the removal of “significant” from Section 290.162 and believe that the use of “decisions” alone will not add to the clarity to understanding what constitutes a management decision. Removing “significant” means that all decisions, even the most

insignificant constitute a management function. We clearly believe that “significant decisions” should be made by management. However, we do believe that during the course of the provision of non-assurance services, the auditor may properly make certain decisions, insignificant in nature and using professional judgment for which the client accepts responsibility. Removing the term “significant” in paragraph 290.162 could be misinterpreted to mean that the auditor is prohibited from making any decisions or judgments in the course of the provision of non-audit services which we do not believe to be IESBA’s intent. We recommend that the term “significant” be retained in Section 290.162 and added back to Section 290.165 as follows: “...client management makes all *significant* judgments and decisions that are the responsibility of management.”

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

We believe the examples included in 290.163 are appropriate. However, we suggest including an additional example to address management responsibilities associated with running Project Management Office (PMO). Although these responsibilities may be indirectly captured by the statement “Supervising activities for the purpose of management oversight”, we believe a more direct statement such as “Oversight or management of client projects and processes” would be a useful addition.

Additionally, we do not agree with the examples that states “Control or management of bank accounts or investments” and believe this language is too narrow. We believe the possession of any client asset is the responsibility of management and the example should not be limited to bank accounts or investments only.

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?

The prerequisite set out in paragraph 290.165 is generally clear and easy to apply. However, we do have two clarifications that we believe would be worthwhile. First, the use of “an individual” could be narrowly construed, as more than one individual may share the responsibility to oversee the services. As a result, we would recommend modifying the language slightly to accommodate the possibility of more than one person sharing the responsibility. For example, instead of “A suitable individual”, the section could read “Suitable individuals” or “One or more individuals.” We believe is more reflective of how many companies operate.

We also believe that the third bullet point in this section could be clarified. “Accepting responsibility for the actions to be taken arising from the results of the services” is slightly awkward wording and we suggest the phrase be modified to read “Accepts responsibility for the results of the services and any actions arising therefrom.”

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

Yes, we believe the enhanced guidance will assist engagement teams to better meet the requirement of not assuming management responsibility. The addition of new examples and the clarification of existing examples enhances the ease of application of these provisions, and the re-placement of the administrative services content should help eliminate confusion.

However, we believe the custody of client accounting records is an area that continues to lack clarity in the Code. It would appear to be a missed opportunity for the IESBA not to clarify whether such custody, by an auditor when performing bookkeeping and accounting services, constitutes a management function prohibited under the Code.

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

Yes, the relocation of the guidance on administrative services to its own subsection provides greater clarity and should eliminate confusion as to the auditors ability to assist clients with their routine or mechanical tasks under certain circumstances without violating the management responsibility provisions of the Code. However, we recommend that a minor modification to the examples included in Section 290.166 be made. We suggest monitoring of tax filing dates be added to the current list of examples to read "monitoring of statutory and tax filing dates."

Routine or Mechanical

7. Does the proposed guidance on "routine and mechanical" clarify the term, or is additional guidance needed?

Yes, we believe the guidance on "routine and mechanical" adds clarity and, with the new wording, the Code provides sufficient discussion on this topic.

However, as noted above we believe that the IESBA should provide greater clarity on whether the custody of client accounting records, by an auditor when performing bookkeeping and accounting services, constitutes a management function prohibited under the Code.

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

Yes, we believe the meaning and identification of source documents is sufficiently clear.

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?

Yes, the changes proposed to Section 291 enhance the clarity of management responsibility. However we suggest that the term "significant" be added back to Section 291.146 consistent with our earlier response to question 2 and with paragraph 290.162.

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

Yes, we believe the examples of management responsibilities in paragraph 291.144 are appropriate. However we believe that the possession of any client asset is a management responsibility and do not believe that the example should be limited to one type of asset.

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

Yes. The relocation and re-drafting of the guidance relating to administrative services provides greater clarity.

We would be pleased to discuss our comments with members of the International Ethics Standards Board or its staff. If you wish to do so, please contact Bob Franchini (+39-02-7221 2014) or Susan Nee (+44(0)207 980 0877).

Yours sincerely,

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