

August 18, 2014

Mr. Ken Siong  
Technical Director  
International Ethics Standards Board for Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, NY 10017 USA

Dear Mr. Siong:

**Re: May 2014 Exposure Draft,  
Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for  
Audit Clients**

I am writing on behalf of the Public Trust Committee (PTC) of Chartered Professional Accountants of Canada (CPA Canada) in response to your request to comment on the Exposure Draft entitled *Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients* (“the Exposure Draft”). CPA Canada together with its partners CGA Canada, Chartered Professional Accountants of Bermuda and various Canadian provincial accounting bodies are currently working towards unification of the Canadian accounting profession under the designation “Chartered Professional Accountant”. The Canadian CPA profession represents a membership of approximately 185,000 professional accountants in Canada and Bermuda.

CPA Canada conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. It issues guidance on control and governance, publishes professional literature, develops continuing education programs and represents the Canadian CPA profession nationally and internationally. The PTC is responsible for overseeing the regulatory structures and processes across provincial jurisdictions in Canada. The PTC’s goal is to achieve consistency between provincial CPA bodies in Canada and to make sure that the processes and standards in Canada meet or exceed the international standards.

We thank you for the opportunity to provide our comments on the Exposure Draft.

Generally, the proposed amendments clarify the language of the Code in relation to management functions. However, consideration could be given to deferring adoption of the amendments to coincide with other more substantive amendments. As the Board is working on a project to restructure the Code, consideration could be given to adopting these amendments, if approved, as part of that project with an effective date to coincide with that project.

Responses to the specific questions outlined in the Guide for Respondents section of the Exposure Draft, are as follows:

*Emergency Provisions*

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

The provisions of Paragraph 100.11 are sufficient to address emergency situations such that retention of the emergency exceptions pertaining to bookkeeping and taxation services is not warranted.

However, applying the provisions of Paragraph 100.11 to address such situations would require professional accountants to “consult” with a member body or regulator. We suggest that consideration be given to adding language to confirm that such consultation does not replace the exercise of professional judgment by professional accountants, nor does it relieve professional accountants from accountability and potential liability for the decisions they make when faced with such situations. Such third party involvement will add rigour to the process, but may raise some additional issues, including:

- (a) Absent language to the contrary, potential for
  - (i) substitution of the professional judgment of the professional accountant with that of the member body or regulator; and
  - (ii) a shift of liability from the professional accountant to the member body or regulator;
- (b) The potential for a situation where
  - (i) the advice from one regulator or member body might differ from another,
  - (ii) the professional accountant must determine which is the “right” body to consult, or
  - (iii) a regulator “approves” an exception, but a member body might still take disciplinary action;
- (c) The potential to introduce delay into a situation that by its very nature requires an immediate response; and
- (d) The possibility that some regulatory structures may be more sophisticated or mature than others and the extent to which such differences might impact the results of consultations.

*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?*

Referring to “decisions” rather than “significant decisions” provides greater clarity and more accurately describes management’s responsibilities.

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

Paragraphs 290.162 and 163, taken together, set out guidance at an appropriate level of detail to provide a useful framework for professional accountants to assess the types of activities that are properly the responsibility of management.

However, the reference to “design” of internal controls as an activity that constitutes a management responsibility on its own, in the final bullet of Paragraph 163, may require further clarification. Providing recommendations on internal controls is advice that is properly provided by an auditor, while actually developing detailed internal control processes is a management responsibility. However, both could be described as “designing” internal controls.

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

No challenges in understanding and applying the prerequisites in Paragraph 290.165 for non-assurance services were noted. The fact that the concepts underlying these prerequisites are similar to those that address obtaining management approval of adjusting journal entries also assists with understanding and applying the prerequisites.

However, the IESBA could consider further clarifying the requirement for “*ensuring* [emphasis added] that the client’s management... Designates an individual...Provides oversight... and Accepts responsibility...” Consideration might be given to whether the Code should require documentation as to how that requirement has been addressed.

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

The revised language provides additional clarity and assistance to engagement teams in avoiding assumption of a management responsibility. Although out of necessity the examples are not all-inclusive, they provide a helpful framework for the exercise of professional judgment by professional accountants.

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

The segregation of the material on administrative services into its own subsection is helpful, however additional comments for consideration are provided below:

- (a) The references to administrative services that are “routine or mechanical” in Paragraph 290.166 and the inclusion of that same phrase (“routine or mechanical”) with reference to the preparation of accounting records and financial statements in Paragraph 290.171 is a bit confusing. It was not immediately clear that the phrase was being used to describe two different types of “routine or mechanical” services and that different requirements applied to the “routine or mechanical” administrative services as opposed to the “routine or mechanical” accounting services. The Board could consider the use of different language than “routine or mechanical” to describe those administrative services that are generally “permissible”. In addition, part of the confusion might have arisen from the placement of the administrative services section before the section on preparation of accounting records, which is likely to be a more commonly provided service. Therefore, the IESBA could consider moving the text in Paragraph 290.166 to immediately follow Paragraph 290.173, with an appropriate introductory title.
- (b) Many of the services described in Paragraph 290.166 are similar to the services described in relation to providing Company Secretary support services (Paragraphs 290.146 to 149). If not already done, a comparison of these provisions might be completed to ensure consistency as necessary.
- (c) We note that Paragraph 290.166 refers to “preparation of statutory forms”. There may be some statutory forms that require the exercise of professional judgment in their preparation. There may also be overlap with the provisions of Paragraph 290.183 in relation to preparation of tax returns. The IESBA could consider whether it might be necessary to provide further guidance to better describe the types of statutory forms that may generally be prepared as an administrative service.

*Routine or Mechanical*

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

As noted above, the use of “routine or mechanical” in relation to both administrative services and accounting services might be a bit confusing. However, the guidance as to what constitutes routine or mechanical was reasonably clear in both cases. As noted above in answer to Q 6, there was some concern as to what “statutory forms” were intended to be included in relation to administrative services.

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

Please note it was assumed that this question was meant to be read as referring to Paragraph 290.171.

With respect to that paragraph, the following comments are provided:

- (a) The examples of what might constitute a routine or mechanical accounting service include a mixture of both general and specific language.
  - (i) Bullet #3 includes what appears to be an incomplete general description with a specific example added on that is necessary to fully complete the general thought. It might read better as:  
“Recording a transaction involving a significant degree of subjectivity, provided that the determination related to all of the subjective elements have been made by the client, for example, recording the valuation of an asset when the client has determined the amount to be recorded”
  - (ii) Bullet #4 uses very specific language and appears to be another example illustrating the general thought set out in Bullet #3
- (b) The following comment relates to existing language in the Code and is not directly related to this exposure draft, but it is worth noting. Paragraph 290.171, which is addressed to all audits (and reviews) refers to “services related to the preparation of accounting records and financial statements” and then describes which of those services might be routine or mechanical. Paragraph 290.172, which is addressed to audits (and reviews) of public interest entities, effectively prohibits the provision of “accounting and bookkeeping services, including payroll services [and] prepare[ation] of financial statements...”. The IESBA could consider whether the difference between the requirements set out in these two paragraphs would be clearer if the services were described using the same language in both paragraphs.

#### *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?*

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

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

The “and” in the last sentence in paragraph 291.145 should be replaced with “or” as follows – “If the firm assumes ... the firm shall ensure that the management responsibility is not related to the subject matter OR subject matter information...”

Comments on this paragraph parallel the response to the related material in Section 290 above.

### ***Request for General Comments***

*In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:*

*(a) SMPs—The IESBA invites comments regarding the impact of the proposed changes for SMPs, especially the changes regarding management responsibilities.*

Recognizing that smaller practitioners deal with smaller clients who may place additional reliance on their auditors, the enhanced guidance in the Exposure Draft will assist those SMPs in making appropriate judgments as to the services they are able to provide.

*(b) Preparers (including SMEs), and users (including regulators)—The IESBA invites comments on the proposed changes from preparers (particularly with respect to the practical impacts of the proposed changes), and users.*

*(c) Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposed changes, in particular, on any foreseeable difficulties in applying them in a developing nation environment.*

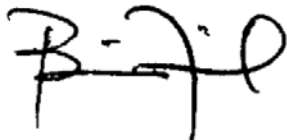
*(d) Translations—Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposed changes.*

*(e) Effective Date—The IESBA proposes that the effective date for the changes will not be less than 12 months after issuance of the final changes. Earlier application would be permitted. The IESBA welcomes comment on whether this minimum period would be sufficient to support effective implementation of the changes.*

No additional comments are provided in relation to these matters.

We thank you for the opportunity to comment on the Exposure Draft and we commend you for your continuing efforts to improve the requirements of the Code.

Yours truly,

A handwritten signature in black ink, appearing to read "B. Friedrich". The signature is stylized with a large, looped initial "B" and a long, sweeping underline.

Brian Friedrich, CPA, FCGA  
Chair, Exposure Draft Working Group – Public Trust Committee  
CPA Canada