



U.S. GOVERNMENT ACCOUNTABILITY OFFICE

441 G St. N.W.  
Washington, DC 20548

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August 18, 2014

Mr. Ken Siong  
Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue, 6th Floor  
New York, NY 10017

**Subject: International Ethics Standards Board for Accountants May 2014 Exposure Draft: *Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients***

Dear Mr. Siong:

This letter provides the U.S. Government Accountability Office's (GAO) comments on the International Ethics Standards Board for Accountants' (IESBA) proposed changes to the *Code of Ethics for Professional Accountants* (the Code) relating to the provision of non-assurance services to audit clients. GAO promulgates generally accepted government auditing standards (GAGAS), which provide professional standards for auditors of government entities and entities that receive government awards in the United States.

We support the IESBA's efforts to clarify and strengthen the Code's non-assurance service provisions. We also support the IESBA's efforts to clarify the concept of routine services relating to the preparation of accounting records and financial statements for non-public interest entity audit clients. Our comments below include several recommendations relating to clarity in the draft's descriptive language and examples. We are also recommending that the Code include a requirement that the auditor document consideration of management's ability to oversee non-assurance services provided by the auditor and that "monitoring statutory filing dates and advising an audit client of those dates" be removed from the examples of services that do not generally create a threat to independence.

### **Specific Comments**

#### *Emergency Provisions*

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

We share the IESBA's view that there are generally no situations warranting the retention of the emergency exceptions pertaining to bookkeeping or taxation services. We believe that the language proposed by the IESBA is appropriate given that the rare circumstances under which an emergency exception would be justified are addressed by 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 support the change from “significant decisions” to the broader “decisions” when referring to management responsibilities. In our view, any management responsibility assumed by an auditor with respect to a financial audit client is significant and impairs independence.

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

The draft proposes adding as an example of a management responsibility “Supervising activities for the purpose of management oversight.” The draft is not clear on the difference between this example and that of “Directing, supervising, or taking responsibility for the actions of employees in relation to the employees’ work for the entity.” We recommend clarifying the difference or combining the two into one example.

GAGAS paragraph 3.36 also includes examples of management responsibilities. Examples in GAGAS that are not in the draft include “providing services that are intended to be used as management’s primary basis for making decisions that are significant to the subject matter of the audit” and “serving as a voting member of an audited entity’s management committee or board of directors.” We encourage the IESBA to consider adding these management responsibilities to the list of examples.

*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 required conditions outlined in 290.165 align closely with the GAGAS requirements, and we have not noted any significant associated challenges. GAGAS adds a requirement that the auditor document consideration of management’s ability to effectively oversee non-assurance services to be performed by the auditor on management’s behalf. Given the substantial threats to independence that provision of non-assurance services by auditors can engender, we recommend that the IESBA include a similar requirement in the Code.

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

We believe that the enhanced guidance generally strengthens and clarifies the requirements as they pertain to management responsibilities.

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

Including the administrative services guidance in its own subsection is appropriate.

We disagree with the continued inclusion of “monitoring statutory filing dates, and advising an audit client of those dates” as an example of a service that does not generally create a threat to independence. We view the monitoring of compliance with any statutory requirement as an internal control function that should be performed by the audit client’s management. We recommend that the IESBA remove the reference to monitoring statutory filing dates as an example of a routine task.

*Routine or Mechanical*

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

The meaning of “mechanical” in this context is unclear. If “mechanical” has a meaning beyond that of “routine,” then we recommend that the IESBA include guidance on the distinction. If “mechanical” has no meaning beyond “routine,” then we recommend removing “mechanical or” and simply referring to “routine tasks.”

GAGAS paragraph 3.40 indicates that routine activities are “typically insignificant in terms of time incurred or resources expended and routine services generally do not result in a specific project or engagement or other formal work product.” We recommend that the IESBA include similar language to help illustrate the limits to services that an auditor may provide.

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

We find the meaning and identification of “source documents” to be sufficiently clear. The IESBA’s description of source documents as evidence of a transaction’s occurrence aligns closely with the GAGAS description as “documents providing evidence that transactions have occurred.”

#### *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?*

In general, we agree with the IESBA’s changes to section 291, including those in proposed paragraph 291.146. Our comments on section 290 apply here as well. We are providing the following additional comment with respect to section 291.

Draft paragraphs 291.145 and 291.146, which discuss the provision of non-assurance and assurance services to the same client, appear to use “subject matter **and** subject matter information” and “subject matter **or** subject matter information” interchangeably. We prefer the phrasing “subject matter **or** subject matter information” because it clarifies that the firm’s provision of a non-assurance service related to the subject matter of the assurance engagement could threaten or impair independence regardless of whether the non-assurance service relates to the subject matter information. Consequently, we recommend using the phrase “subject matter **or** subject matter information” throughout these two paragraphs.

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

Our response to question 3 on the examples of management responsibilities in section 290 applies here as well. Since firms could conduct performance audits in accordance with the direct engagements provisions of International Standard on Assurance Engagements 3000 under section 291, we recommend adding the following example of a management responsibility that would impair independence:

Developing a client’s performance measurement system when that system is significant to the subject matter of the assurance engagement.

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

Please see our response to question 6 above; it applies to section 291 as well as section 290.

## General Comments

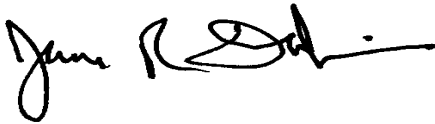
*Effective Date—The IESBA proposes that the effective date for the changes will not be less than 12 months after issuance of the final changes. Earlier application would be permitted. The IESBA welcomes comment on whether this minimum period would be sufficient to support effective implementation of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

An effective date of “not less than 12 months after issuance of the final changes” is appropriate. We believe that this period is adequate for most audit organizations to revise their procedures as necessary, and the 12-month period will not present an undue burden to audit organizations that provide non-assurance services.

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We thank you for considering our comments on this important issue as the IESBA continues to clarify the responsibilities of management and auditors relating to non-assurance services.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James R. Dalkin  
Director  
Financial Management and Assurance