

International Ethics Standards Board for Accountants
529 Fifth Avenue
New York
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USA

29 May 2020

Comment Letter Relating to the Exposure Draft on Proposed Revisions to the Non-Assurance Services Provisions of the Code

Dear Board Members,

1. The Irish Auditing and Accounting Supervisory Authority ('IAASA') appreciates the opportunity to comment on the IESBA's ('Board') consultation on Proposed Revisions to the Non-assurance Services Provisions of the Code.
2. In Ireland, the IESBA Code forms the basis for the Ethical Standard for Auditors (Ireland) issued by IAASA as well the code of ethics of each of the prescribed accountancy bodies. IAASA clearly sees an interest in enhancing the content of the IESBA Code, as it constitutes the basis for the ethical requirements with which auditors and accountants in Ireland are required to comply.

General comments

3. We welcome the 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, as detailed in the comments below.

Self-review threats and related entities

4. 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 and that 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

5. Similar to the comment above, the requirements in R600.8 and R600.10, when dealing with PIE audit clients 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 Irish and European legislation.

Communication with Those Charged with Governance ('TCWG') regarding non-assurance services and related entities

6. 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 for 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 European legislation, which applies in Ireland.
7. 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 proposed 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, including both controlled entities and parent undertakings.

Non-assurance services provided in the previous year to an audit client that is a PIE

8. 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 EU Regulation 537 of 2014 ('the European Regulation'), which applies in Ireland, these requirements should recognise that 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. Examples of such services include 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

9. In our view the exceptions permitted in paragraph R.600.21 should not be applicable to the related entities of PIEs, including both controlled entities and parent undertakings.

Prohibitions and self-review threats

10. 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 European legislation, which applies in Ireland, 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.

11. 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)

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 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 permitted in the European Regulation, which has been adopted in Ireland.

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.

12. 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 in order to avoid any threat to independence for PIE auditors. We would encourage the IESBA to consider including such a provision in the Code.
13. 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 paragraph 610.3 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.
14. 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, 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 area, for example on the provision of advice on remuneration packages and on the appointment of any director or employee, as well as extending the provisions to significant related entities of the audit client
15. We encourage the Board to consider replacing the provisions in Subsection 605 – Internal Audit Services with a prohibition on the provision of internal audit services to any audit client.

Safeguards

16. We support the proposal to provide examples of safeguards that could be applied to address risks to 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. 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.

I hope that you find the comments useful. Please do not hesitate to contact me if you have any questions.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Kevin Prendergast', written over a horizontal line.

Kevin Prendergast

Chief Executive