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Dear Board Members

Exposure Draft of Proposed Revisions to the Non-Assurance Services related Provisions of the Code

We are pleased to have the opportunity to respond to the Exposure Draft of *Proposed Revisions to the Non-Assurance Services related Provisions of the Code*. We set out below our overall comments on the proposals followed by detailed responses to the questions raised. We trust that you will find our comments helpful. Please feel free to contact me if you would like to discuss further.

Overall Comments

In general, we support the IESBA's efforts to enhance the Non-Assurance Services (NAS) provisions of the Code so that they remain robust and appropriate in enabling professional accountants to meet their responsibility to comply with the fundamental principles and to be independent. We also note that in many jurisdictions there are ongoing initiatives which may also result in changes to auditor independence requirements with respect to fee related matters of audit and assurance clients.

We agree that the stakeholders of PIE entities hold auditors to a higher standard and so expect that the provisions will be stronger for PIE audit clients and that it is appropriate to have different requirements for non-PIE audit clients. In our view, the provisions and safeguards in the extant Code in relation to NAS provided to non-PIE entities are sufficient to minimise the threat to auditor independence for these entities.

The Code and these proposals include 'black-listed' services that cannot be performed in certain situations. We believe that it would also be helpful, as part of the application material in the Code, to also consider a 'white list' of the types of services that ***can*** be performed, in some cases with appropriate safeguards. We acknowledge that neither a 'black list' or a 'white list' could be exhaustive as service offerings change, but we believe such material would certainly assist in determining how the Code is to be interpreted. A 'white list' of permitted services, could be written such that existing services are categorised but with clear principles as to what services fit into given categories such that

any unlisted or emerging service could more clearly be evaluated and categorised. The types of services in a 'white list' could be categorised, for example, as follows:

1. Statutory audit - permissible
2. Audit-related services – permissible as the auditor is best placed to provide the service and independence requirements would not be breached – e.g. ISAE3402, Grant certification, Agreed upon procedures and basic tax compliance services
3. Other assurance services – permissible depending on the service e.g., due diligence, investigating accountants' reports
4. Non-assurance services - permissible depending on the circumstances.

Application material providing guidance on the types of services and circumstances where services may be permissible would be especially helpful.

Response to request for specific comments

Prohibition on NAS that will create a self-review threat for PIEs

1. *Do you support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14?*

   Response: In principle, we support the proposal prohibiting NAS for PIE's, where the NAS will create a self-review threat, subject to our comments below regarding the definition of self-review in 600.11.A2 and related application material.

2. *Does the proposal application material in 600.11 A2 set out clearly the thought process to be undertaken when considering whether the provision of a NAS to an audit client will create a self-review threat? If not, what other factors should be considered?*

   Response: It would be helpful if the application material made it clearer that all three sub-bullets (a), (b) and (c) must be met in order for a NAS to meet the definition of a service which creates a self-review threat. Although it is implicit in the manner it is written, it would be helpful to make it more explicit that all three conditions must be met, either by amending the introduction to the list of by adding "and" at the end of point (a) and (b).

   However, there is a lack of clarity between the removal of materiality as a consideration for PIEs, the application material in 600.11.A2 and the prohibition in R600.14. Although IESBA states that materiality has been removed as a consideration regarding a self-review threat for PIEs, 600.11.A2 (b) effectively reintroduces materiality as a consideration, stating that 'in the course of the audit of those financial statements, the results of the service will be subject to audit procedures'. Under auditing standards, auditors are not required to perform audit

procedures on immaterial items and therefore, if the firm or network firm provides a NAS which has an immaterial impact on the financial statements it will not be subject to audit procedures and therefore does not meet the criteria set out in 600.11.A2 and the auditor would conclude that the NAS does not give rise to a self-review threat.

For example, if the audit firm or network firm provides a valuation of an asset that is not material to the financial statements, and so will not be subject to audit procedures, presumably this would not meet all three criteria in 600.11.A2 and therefore would not give rise to a self-review threat, even for a PIE? It would be helpful to clarify this situation through examples in the application material.

Providing Advice and Recommendations

3. *Is the proposed application material relating to providing advice and recommendations in proposed paragraph 600.12 A1, including with respect to tax advisory and tax planning in proposed paragraph 604.12 A2, sufficiently clear and appropriate, or is additional application material needed?*

Response:
With regard to 604.12.A2, we welcome the clarity in the proposed revisions to the Code that these services will not create a self-review threat, which is much improved on the text in 604.7.A3 in the extant standard. However, although points (a) and (b) are clear we remain concerned that the point (c) 'have a basis in tax law that is likely to prevail', is too subjective and open to significant interpretation. Although we acknowledge that this wording is included in the extant standard, it has much greater prominence in these proposals.

It would seem unlikely that a reputable tax advisor would knowingly give advice that has no basis in law with an expectation that advice would be unlikely to prevail. We therefore question the value of this consideration, which is unclear and confusing as presented, without further application material.

Furthermore, it is not clear how the material around providing advice and recommendations to audit clients works in practice with the requirements of ISA 260 and ISA 265 regarding reporting to TCWG, in particular the requirements to communicate significant deficiencies in ISA 265. Whilst ISAs do not require the auditor to provide advice or recommendations relating to identified deficiencies, it is not unreasonable for the entity to seek the auditor's advice in responding to the matters reported. Further application material would be helpful in this regard.

Project on Definitions of Listed Entity and PIE

4. *Having regard to the material in section I, D, "Project on Definitions of Listed Entity and PIE," and the planned scope and approach set out in the approved project proposal, please share your views about what you believe the IESBA should consider in undertaking its project to review the definition of a PIE.*

Response: We agree that stakeholder interest in a firm's independence are potentially heightened in the case of a PIE, and therefore more stringent provisions should apply. We believe that these considerations are just as important for "small" PIEs as they are for larger entities and would not be supportive of introducing different requirements for PIEs which are considered "small" as it would be extremely difficult to develop a global definition of small in this context. In our view there should be a single definition of PIE. In addition, as the standard setters have already noted in the Less Complex Entity conversations of recent years, complexity is rather more important than size in many respects.

As a mid-tier audit network with a large non-PIE audit client base, we do not agree that applying these same requirements to non-PIE entities is necessary, given the reduced stakeholder interest in such entities and that such requirements would likely prove onerous on the audited entities themselves (e.g. the need to identify different advisors for services which the auditor is well placed to perform). Appropriate safeguards as outlined in the extant Code can be implemented and are sufficient to reduce the threats to auditor independence to an acceptable level for non-PIE entities in most cases and, where this is not the case, the extant Code is clear on the actions required.

Materiality

5. *Do you support the IESBA's proposals relating to materiality, including the proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs (see Section III, B "Materiality")?*

Response: In principle we understand the proposal to withdraw the materiality qualifier for NAS for audit clients that are PIE's. However, as noted in our response to Q2, the considerations in 600.11.A2 clearly indicate that materiality remains a relevant consideration where the requirement to undertake audit procedures is based on the materiality of the amounts involved.

With regard to withdrawing the provisions permitting accounting and bookkeeping services to divisions and related entities in certain circumstances, we are concerned that there may be unintended consequences of the proposals. As set out in R600.18 a Public Interest Entity includes 'related entities over which the audit client has direct or indirect control, regardless of their materiality to the group'. However, the auditor of the PIE may not be auditor to a related entity which is immaterial, clearly insignificant to the group and does not require an audit for any other purpose. In this situation, it may be more efficient and effective for the client to request the audit firm to assist with the accounting and bookkeeping services such as preparation of accounts for this immaterial entity. These proposed revisions will now require the client to seek assistance from another firm to provide these services which may be impractical, and not necessarily in the interests of the client, depending on the circumstances. We believe that, if the conditions in extant R601.7 can be met, and the entity is clearly immaterial, providing this service should not be prohibited.

6. *Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of materiality:*

   - *Tax planning and tax advisory services provided to an audit client when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R604.13)?*

   - *Corporate finance services provided to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R610.6)?*

Response: In our view, for audit clients that are non-PIE entities, the materiality qualifier should not be withdrawn for any non-assurance services including those above as, to do so, may place an additional burden on non-PIE entities in identifying alternative providers. If the service is determined to be immaterial and appropriate safeguards can be implemented, the threat to auditor independence can be minimised sufficiently to satisfy the stakeholders of these types of entities.
We also note that, for services such as these, the accounting treatment may not be known until late in the process of providing the service and it is therefore difficult to prohibit provision of a service in advance when the outcome is not known.

Communication with TCWG

7. *Do you support the proposals for improved firm communication with TCWG (see proposed paragraphs R600.18 to 600.19 A1), including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE (see proposed paragraph R600.19)?*

Response: Under extant auditing standards, auditors are required to communicate with TCWG throughout the audit process, including regarding independence. With regard to obtaining concurrence from TCWG for the provision of NAS to a PIE audit client, we agree with the principle. However, there may be exceptional circumstances where it is not practicable to obtain that approval prior to engaging with the client, particularly if there is a short term need for support. We appreciate that the application material suggests options for obtaining approval, but it may be helpful to acknowledge in application material that there may be exceptional circumstances which mean that retrospective approval may be necessary for some NAS, particularly those with little or no impact on the audit of the financial statements and consequently a lower threat to independence.

Other Proposed Revisions to General NAS Provisions

8. *Do you support the proposal to move the provisions relating to assuming management responsibility from Section 600 to Section 400, and from Section 950 to Section 900?*

Response: We support the proposal to move this overarching requirement to section 400 rather than including it with the specific NAS provisions in section 600. We suggest, however, a cross reference within application material in the Introduction to section 600 to highlight the importance of not assuming management responsibility when undertaking NAS.

9. *Do you support the proposal to elevate the extant application material relating to the provision of multiple NAS to the same audit client to a requirement (see proposed paragraph R600.10)? Is the related application material in paragraph 600.10 A1 helpful to implement the new requirement?*

Response: We support the proposal to introduce this requirement. We note that this proposal will make the evaluation and assessment of threats more challenging, especially for firms in the mid-tier providing a full-service model to SMPs. Consequently, practical examples of what the Board might consider appropriate would be useful to properly evaluate this proposal in both PIE and non-PIE settings.

Proposed Revisions to Subsections

10. Do you support the proposed revisions to subsections 601 to 610, including:

    • The concluding paragraph relating to the provision of services that are “routine or mechanical” in proposed paragraph 601.4 A1?

    Response: We have no comments on these proposals, which are largely unchanged from the extant Code, other than our comments above relating to:

    - tax planning advice in Q3, and
    - accounting and book-keeping services in Q5.

Proposed Consequential Amendments

11. *Do you support the proposed consequential amendments to Section 950?*

    Response: Yes.

12. *Are there any other sections of the Code that warrant a conforming change as a result of the NAS project?*

    Response: We have no further suggestions for confirming amendments.

Other Comments

In addition to the comments set out above in response to the questions raised, we have the following comments on the proposals:

- **R400.32 –** it is not clear whether all three options are mutually exclusive (i.e. whether any of the three considerations is sufficient). It is implicit by using “or” between (b) and (c) but we feel it could be made clearer that any one of the three options would be sufficient to accept the appointment. Furthermore, we do not believe it likely that option (c) is realistically likely to be applied in practice. It is difficult to see a PIE re-engaging a second advisor to re-perform the service and it is unlikely that a second advisor would be willing to take responsibility for the service under (c)(i). This same comment applies to other paragraphs in the proposals including 600.20 A1
- **600.6 A1 –** we note the new paragraph being added that states that local laws and regulations are to be complied with. It is not clear why this paragraph is relevant only to section 600 of the

Code as, presumably, it applies to the whole Code and we query whether it is necessary to include this paragraph here.

- **900.34 A1 – A2 –** we do not believe the material in these new paragraphs is necessary. 900.34 A1 merely refers to other paragraphs which set out requirements and associated application material. The wording in 900.34 A2 is confusing at best and does not, in our view, add value to the Code. We suggest deleting these paragraphs.

Yours faithfully,

Dr Paul Winrow

Director of Professional Standards