

01 June 2020

Mr. Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants (IESBA)
529 Fifth Avenue
New York, NY 10017
USA

Re: Request For Comment: Proposed Revisions to the Non-Assurance Services Provisions of the Code

Dear Mr Siong

A - 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?
2. Does the proposed 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?

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?

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.

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")?
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)?

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)?
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?

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?

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?
- The withdrawal of the exemption in extant paragraph R601.7 that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if certain conditions are met?
- The prohibition on the provision of a tax service or recommending a tax transaction if the service or transaction relates to marketing, planning or opining in favor of a tax treatment, and a significant purpose of the tax treatment or transaction is tax avoidance (see proposed paragraph R604.4)?
- The new provisions relating to acting as a witness in subsection 607, including the new prohibition relating to acting as an expert witness in proposed paragraph R607.6?

Proposed Consequential Amendments:

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

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

Singapore member firm:

Q.1, Q.2, Q.5, Q.6 - We do not support the above proposals as they propose the restriction of non-assurance services, with no regard as to whether the impact of providing the non-assurance services have a material impact on the audit service provided. As a result, they would lead to overly restricting the pool of clients to whom the audit firms may provide non-assurance services. As a consequence, there would be less opportunities for the audit firms to build expertise in key fields of expertise, such as valuation, taxation, IT systems services as well as build expertise in specialised industries etc. Also, this makes audit firms less competitive in terms of attracting talents to provide a whole array of services, including advisory services. In the long run, it would also adversely impact the quality of assurance/non assurance engagements.

Q.7 - We do not support the proposed new requirement as it places undue burden on audit firms. Currently, in Singapore, there is a requirement for firms, in listed audit clients, to provide explanations to those charged with governance on the safeguards we have in place, and in our view, the current requirements should be sufficient.

Q.10 - We do not support this proposed new requirement as it is overly restrictive and this will restrict the firm in providing accounting/book keeping services to subsidiaries of PIE and other non-PIE audit clients even when the threat of independence is insignificant (currently allowed).

South Africa member firm:

Q.1 - Yes, in support of this paragraph. **Recommendation:** It should be added that “unless safeguards can be implemented to reduce the self-review threat to an acceptable level”.

Q.2 - **Recommendation:** One of the steps should be to consider whether the financial statement item that was subjected to the service is material to the financial statements.

Q.3 - **600.12 A1** - Providing advice and recommendations to management will only create a self-review threat when the activity is a management responsibility. However, providing advice and recommendations to assist management to discharge or implement its already established responsibilities should not be considered a management responsibility.

Q.3 - **604.12 A2** - Yes, in support of this paragraph.

- Q.4 -
1. There should be a distinction between the requirements for PIEs and non-PIEs.
 2. The definition of a PIE should be clearly set out.
 3. The impact of the entity on “stakeholders” (internal or external) should be considered. For example, internal stakeholders such as employees or external stakeholders such as the public should be considered.
 4. “Size” (in terms of turnover), is not always a good measure. For example, an owner-managed business with very few staff could have a high turnover but with an equal high amount of expenses, due to the nature of the business.

Q.5 –

1. No, we do not agree that this qualifier should be removed.
2. In certain cases, parties do not want information directly from the entity, but require independent confirmation from a third party such as the auditor.

3. There are some non-audit services that are immaterial or even trivial that can usually easily be provided by the auditor, without forcing the entity to incur additional costs for an independent service. For example, providing confirmation of certain information to other parties, such as:
 - a. Confirming the shareholders and shareholdings in the company
 - b. Confirming turnover amounts for property managers to determine rental amounts
 - c. Confirming that the entity is in the process of being audited
4. These confirmations are regarded as non-audit services but the auditors are in the best position to provide such services.

Q.6 - **604.13 - Recommendation:** The following should be added:

"The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion"

Q.6 - **R610.6 - Recommendation:** The following should be added:

"The outcome or consequences of such advice will have a material effect on the financial statements on which the firm will express an opinion"

Q.7 – **600.11 A2 - Recommendation:** One of the steps should be to consider whether the financial statement item that was subjected to the service is material to the financial statements.

Q.7 – **R600.18** - Yes, in support of this paragraph.

Q.7 – **600.19 A2** - Yes, in support of this paragraph.

Q.9 - Yes, the application material in par. 600.10 is helpful but could be expanded on.

Q.10 – **601.4 A1** - Yes, in support of this revision.

Q.10 – **604.4** - Yes, in support of this paragraph.

Q.10 – **607.6** - Yes, in support of this paragraph.

UK member firm:

[References to "EM" below are to paragraphs in the relevant Explanatory Memorandum.]

Q.3 - EM 41 notes that there was extensive deliberation about condition (c) in proposed paragraph 604.12 A2, due to concerns about its subjective nature. As it stands, (c) is potentially capable of being read in whatever way the practitioner wants: presumably they will believe that their interpretation of tax law "is likely to prevail", otherwise they would not be offering the advice in the first place. If this condition is to be included, it should be made clear that an objective assessment is required.

Q.5 & Q.6 - No, I do not support the proposals as far as immaterial items are concerned. It is wholly appropriate for a principles-based standard such as the Code to allow for exceptions where there is no impact on a user's economic decisions. Concerns from some stakeholders about inconsistent usage would be better addressed through education and enforcement activities rather than making the Code blunter and blunter.

Q.10 - Proposed paragraph 601.3 A1 reads a little oddly – it is not immediately obvious when the results of accounting and bookkeeping services would not affect the accounting records or the financial statements of the audit client. Proposed paragraph R604.10 prohibits certain tax calculations for PIE audit clients “if such calculations will create a self-review threat”. However, proposed paragraph 604.8 A1, which applies to all audit clients, states that “Preparing tax calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that support such balances create [sic] a self-review threat.” So, it is not immediately clear when a firm would be able to prepare such tax calculations for a PIE. Either examples need to be added or the conditionality needs to be removed from proposed paragraph R604.10.

Japanese member firm:

Q.2 & Q.3 - When a firm provide non-assurance services to their audit clients, there is a risk that they will audit the result of their own service. To address a threat of self-audit (600.11 A1), an application guidance has been introduced (600.12 A1) . When a firm provides advise or suggestions, they shall judge whether a threat of self-audit is caused by the services.

However, 600.12 A1 only states that a firm shall judge whether a threat is caused by the advice or suggestions based on 600. 11 A2 and a firm shall consider nature of the advice or suggestions and how the advice or suggestions are conducted by the audit clients. We consider that there should be additional guidance of specific examples, such as advisory services in connection with a new accounting standards introduction, so that a firm is able to judge whether or not a threat will be caused.

Argentinian member firm:

Q.1 - We support the proposal. However, some services should be evaluated in view of a materiality qualifier threshold (see our comment in Q.10 below).

Q.2 & Q.3 - Some recommendations and adjustments proposed during the audit work, as those mentioned in paragraph 601.2.A2, could be significant enough to raise some risk of self-review. The rule should include additional guidance of safeguards to apply in those situations.

Q.4 – The IESBA should take in consideration how the way to raise funds have changed in the last years. Entities, which are organized as crowd funds or are mainly holding assets in fiduciary capacity for a large number of stakeholders, although not listed should all be considered PIEs. The large number of stakeholders gathered in the mentioned entities should be protected.

Q.5 – Although we understand the need to make the independence standards more restrictive, especially for PIEs, we consider that the qualification of materiality should be maintained, including guidance on how to calculate said materiality for the purposes of independence (for example, restricting it to a percentage of the audit fees).

Q.6 – We think that the materiality qualifier should be maintained for non-PIEs and, instead of prohibiting certain tax services, should be included additional guidance to consider the materiality qualifier.

Q.7 – We think that TCWG should review and approve NAS to be provided to a PIE. This procedure is already applied by getting the approval of the Audit Committee in all material services. However, we think that a materiality fee qualifier should be included to avoid delays in the service.

Q.8 – We think provisions moved from section 600 to 400.13 and from section 950 to 900.13 should be kept in section 600 and 950, respectively, because they are responsibilities/ activities more related to NAS. We support provisions moved to section 400.14 and 900.14 because they are, in our opinion, adjunctive to provisions in section 400.12 of the extant Code.

Q.9 – Yes, but we think a materiality qualifier threshold for the fees related to the NAS should be included.

Q.10 - Regarding services described in 601.4 A1, we think that only assisting in the preparation of the F/S could raise a self-review threat. The remaining areas should be evaluated in view of the materiality for the audit. This comment applies to the withdrawal of the exemption in extant paragraph 601.7. We support the remaining revisions.

Q.11 – See our comments in Q.8 above.

B - Request for General Comments

- Those Charged with Governance, including Audit Committee Members – The IESBA invites comments regarding any aspect of the proposals from individuals with responsibilities for governance and financial reporting oversight responsibilities. This includes small businesses where a single owner manages the entity and also has a governance role.
- Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs) – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.
- Regulators and Audit Oversight Bodies – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.
- 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 proposals, and in particular on any foreseeable difficulties in applying them in their environment.
- 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 proposals.

UK member firm

In general, the coordination with the IAASB is welcome to ensure that conflicting regulations and duplication are avoided.

In some places, the language obscures the message because it is unnecessarily verbose.

Consideration should be given to simplifying sentence structures and removing unnecessary repetition of cumbersome phrases. By way of an example, the sub-headings make it clear that a particular subsection applies to non-PIEs only (which is welcome). However, every individual paragraph in that subsection will also refer to "an audit client that is not a public interest entity" every time it refers to a threat, service etc. This leads to proposed paragraphs like 604.18 A1, which begins: "A firm or a network firm might perform a valuation for tax purposes only for an audit client that is not a public interest entity where the result of the valuation only affects the accounting records or the financial statements through accounting entries related to tax." The words "for an audit client that is not a public interest entity" could be removed without altering the understanding at all, which would help to remove one element of complexity from the sentence. The same is true of the remaining paragraphs in section 604.18.

Careful proof-reading will be required at the final stage, as there are a number of typographical errors that will not be picked up by a spell-checker, e.g. the reference in the final bullet of proposed paragraph 601.2 A3 to "conversation of exiting financial statements from one financial reporting framework to another."

Please feel free to contact me if you have any comments or queries.

Yours sincerely,



Mohammed Yaqoob

Audit Director