

Proposed changes to certain provisions of the Code addressing non-assurance services for audit clients

A consultation issued by the International Ethics Standards Board for Accountants

Comments from ACCA

18 August 2014

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We support our 170,000 members and 436,000 students in 180 countries, helping them to develop successful careers in accounting and business, with the skills needed by employers. We work through a network of 91 offices and centres and over 8,500 Approved Employers worldwide, who provide high standards of employee learning and development.

ACCA works in the public interest, assuring that its members are appropriately regulated for the work they carry out, and promoting principles-based approaches to regulation. We actively seek to enhance the public value of accounting in society through international research, and we take a progressive stance on global issues to ensure accountancy as a profession continues to grow in reputation and influence.

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ACCA welcomes the opportunity to comment on the proposals issued by the International Ethics Standards Board for Accountants (the IESBA). The ACCA Global Forum for Ethics has considered the matters raised, and the views of its members are represented in the following.

OVERALL COMMENTS

ACCA believes that, in general, the proposed changes would provide more clarity and make the provisions in respect of non-assurance services to audit clients slightly more concise. However, we do not believe that the changes are sufficiently important to justify change to the Code at this time. Frequent changes to standards are a particular challenge to SMPs, and we note the Board's agreement, set out on page 4 of the consultation document, that '... the Code's provisions concerning non-assurance services are still robust in protecting the public interest'.

ACCA believes that it would be appropriate to defer the proposed changes until such time as other measures to enhance clarity are also implemented (for example, improvements to the structure of the Code). This would facilitate greater understanding of the Code during a period in which many believe that the IESBA should be focusing on the Code's adoption and effective implementation.

SPECIFIC ISSUES

In this section of our response, we answer the 11 questions set out in the exposure draft section *Request for Specific Comments*.

EMERGENCY PROVISIONS

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

We agree that the use of terms such as 'emergency' and 'unusual' suggest a high level of subjectivity. It will always be possible to imagine situations in which these terms will be relevant. However, such situations are already covered by paragraph 100.11 of the Code, and attempts to explain 'emergency or other unusual situations' threaten to undermine the significance of that paragraph.

An emergency situation may include a need for strict confidentiality. Staff of the audit firm would have the required knowledge of the audit client's systems and

procedures, but might also be regarded as more likely to safeguard confidential information than would subcontractors not previously known to the client. It may be unclear whether such an example – predicated on the need to retain confidentiality – would fall within the category of an ‘emergency or other unusual situation’ as currently set out, and we would prefer to see the emphasis on proportionality and appropriate consultation, as required by paragraph 100.11.

In conclusion, we believe that the continued use of specific exceptions within the Code would perpetuate issues of uncertainty and inconsistency of application, rather than provide clarity and focus on the public interest. However, at a later date, it would be necessary for the IESBA to provide guidance (either within the restructured Code or elsewhere) to highlight and better explain the impact of paragraph 100.11. This should include a clear explanation of the role of a regulator in such circumstances.

MANAGEMENT RESPONSIBILITIES

Question 2: Does the change from ‘significant decisions’ to ‘decisions’ when referring to management responsibilities (paragraph 290.162) enhance the clarity of a management responsibility?

The word ‘significant’ is usually subject to interpretation, and such terms should only be used where they enhance understanding of the Code. However, in this context, the proposed change – to remove the word ‘significant’ – alone does little, if anything, to enhance clarity.

In addition, the benefit of inserting the word ‘technological’ in this paragraph is questionable. As currently drafted, ‘physical’ is being contrasted with ‘intangible’ (ie non-physical), and these two terms would now be split up.

In the section of the Code that addresses management responsibilities, the overriding principle – that the auditor shall not assume management responsibility – should not be obscured. It would be an oversimplification to state that all decisions should be taken by management. However, all decisions relating to the management of the audit client must remain with management. In our opinion (as suggested in the proposed changes), these decisions will relate to the responsibilities of ‘controlling, leading and directing’ the entity.

Question 3: Are the examples of management responsibilities in paragraph 290.163 appropriate?

Broadly, we would agree that the examples provided are appropriate, and we would agree with the deletion of the word 'generally'. It is difficult to imagine situations in which the examples provided would not be considered management responsibility. However, there is a risk that extending the list of examples without mention of the exercise of judgement diminishes the importance of that principle to professional accountants.

We would support a more principles-based approach in respect of management responsibilities, and the importance of the first sentence of paragraph 290.163 should not be underestimated. The assessment of whether a particular activity is the responsibility of management will often require the auditor's professional judgement.

While addressing this paragraph 290.163, we have the following comments concerning drafting, which may have an impact on the ability to understand and translate the Code:

- 'Hiring or terminating employees': We suggest that this should refer to 'hiring or ending the employment of employees' or, even more specifically, 'authorising the hiring or ending the employment of employees'.
- 'Supervising activities for the purpose of management oversight': The difference between supervising and providing oversight in this context is unclear. As supervising is referred to in the third bullet point, we recommend that the fifth bullet point should simply say 'Providing management oversight'.
- 'Control or management of bank accounts or investments': It is unclear why it is necessary to differentiate between 'control' and 'management' when referring to bank accounts and investments.
- 'Reporting to those charged with governance on behalf of management': In the context of this paragraph, we believe that the words 'on behalf of management' are redundant. However, clarity is also required to emphasise that this is apart from the auditor's responsibilities (as auditor) under ISA 240.

Question 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?

Although the drafting of this paragraph is clear, we have further concerns that the overriding principle may be obscured by the proposed changes. There may also be unintended consequences of introducing such prescriptive requirements. The designation by management of an individual to be ‘responsible at all times’ for managerial decisions may weaken the quality of the audit client’s decision-making. It may not be appropriate (or even possible) for the auditor to require management to delegate its decision-making. (In some entities, the required skill sets might lie with relatively junior staff.)

The fundamental requirement of the Code is simply to make clear that client management must accept responsibility for certain decisions, and the auditor must be satisfied that such decisions have been taken by those with the appropriate authority (whether delegated for the purpose or ongoing).

We have specific concerns in respect of the requirement that the auditor shall be satisfied that the designated individual ‘provides oversight of the services and evaluates the adequacy of the results of the services performed for the client’s purpose’. Of course, the auditor cannot be sure, at the outset, whether successful evaluation of the results will occur. It is possible that, if the designated individual is not required to possess the expertise to perform or re-perform the services, he or she may not be able to assess and evaluate the adequacy of the results of the services performed, nor to take any decisions for which he or she is now responsible.

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

Although we have cautioned about the move away from a principles-based approach to assessing management responsibility, the clarity of the proposed wording may be deemed to be enhanced guidance. However, in the interests of clarity, the incorporation of further guidance within the Code at this stage is not recommended. In order to retain a clear understanding of the principles, such guidance should either remain outside the Code itself, or else await the future restructuring of the Code.

Similarly, the enhanced guidance in paragraph 290.171 in respect of ‘routine and mechanical’ services, including clear examples, is useful, and the examples represent situations often encountered in practice. However, we believe that such examples would be just as effective if made available in guidance separate from the Code itself, and this would leave a more streamlined and effective

Code. Alternatively, these proposed changes should not be made before the Code as a whole is restructured.

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

On balance, we believe that the relocation of the guidance pertaining to administrative services does provide greater clarity. However, it appears that many would consider some of the routine or mechanical accounting services set out in paragraph 290.171 to amount to administrative services also. Greater clarity would be achieved through a clear explanation of how these services differ and, therefore, how the requirements for routine or mechanical services provided to non-public interest entities differ from the requirements in respect of public interest audit clients.

ROUTINE OR MECHANICAL

Question 7: Does the proposed guidance on ‘routine or mechanical’ clarify the term, or is additional guidance needed?

We believe that the proposed amendments to paragraph 290.171 provide greater clarity. The requirement that little or no professional judgement should be exercised is particularly important, and the cross-reference to management responsibility is very useful (albeit we would caution against referencing to the specific requirements of proposed paragraph 290.165). We would also refer the reader to our response to question 5 above.

With regard to the examples given, the calculation of depreciation is a good example of when an audit client might seek advice from the auditor. This could involve discussing an asset’s estimated useful life and residual value. For clarity, we recommend that the proposed wording be amended. Rather than refer to ‘when the client provides the accounting policy and estimates of useful life and residual values’, the word ‘provides’ should be replaced by the word ‘determines’, thereby making it clear that the auditor may give appropriate advice without taking management responsibility for decision-making.

Further guidance is required in respect of the sixth bullet point example. Preparing financial statements based on information in the client-approved trial balance is clearly not routine or mechanical in nature, as it cannot be said to require ‘little to no professional judgment from the professional accountant’. This example is particularly significant to SMPs. There is often a degree of judgement required concerning the appropriate way in which to make certain

disclosures, and a set of financial statements will usually include necessary disclosures that are not derived from a trial balance.

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

In our opinion, this is sufficiently clear, and the term 'source document' is well-understood in English-speaking countries. Any attempt to add further clarification would be likely to obscure the principle, and impede the ability of professional accountants to identify management responsibilities by exercising their judgement effectively.

SECTION 291

Question 9: Do the changes proposed to Section 291, specifically the additional requirements to proposed paragraph 291.146, enhance the clarity of a management responsibility?

We have nothing further to add in respect of section 291. Much of our response above is also relevant to this section, and we would particularly like to highlight our response to question 4.

Question 10: Are the examples of management responsibilities in paragraph 291.144 appropriate?

As previously explained in respect of paragraph 290.163, we would largely agree with the examples provided, and with the deletion of the word 'generally'. However, for reasons already explained, we would support a more principles-based approach, and we would prefer the first sentence of paragraphs 290.163 and 291.144 to be retained. (Please see our specific comments under question 3 above, which include drafting suggestions.)

Question 11: Does the relocation of the guidance pertaining to administrative services provide greater clarity?

We believe that the benefit of relocating this guidance in section 291 is less than the benefit anticipated in respect of section 290. We would reiterate our suggestion that the proposed changes in respect of non-assurance services provided to assurance clients should be delayed until improvements to the structure of the Code have been established. (See our overall comments and responses to questions 1 and 5.)

GENERAL COMMENTS

In this section of our response, we address some of the matters identified in the section of the exposure draft *Request for General Comments*. ACCA has developed this response following an internal due process involving preparers and users, those in developing nations, and those who will use the Code in translation. This input, such as from our Global Forum for Ethics, has informed the whole of this response. However, we would make the following specific observations.

SMPs

We have explained elsewhere in this consultation response that frequent changes to codes and standards are a burden on SMPs, and the costs of such changes are likely to outweigh the benefits. (See our overall comments and our response to question 7.)

The exposure draft refers, in several places, to 'guidance' within the Code. It is hoped that, once the structure of the Code has been improved, the status of such guidance will become clearer. However, our preferred approach would be to restrict the Code's content to clear requirements (including identifying threats that can never be addressed by adequate safeguards), while retaining guidance in a separate document. This would help to focus attention on the framework approach to resolving ethical dilemmas, while not diminishing the importance of guidance currently within the Code.

Translations

Some specific comments in respect of drafting have been included under question 3 above, and these could have an impact on translation of the Code.

Effective Date

While there are narrow areas of this consultation in which the proposed changes appear to provide greater clarity, we believe that the overall impact of the proposals would be unlikely to result in significant changes in practice if implemented at this time. Therefore, a relatively short period between the release of any changes and the effective date should not create significant challenges. Nevertheless, the perception of many might be that the benefits of the proposals are not sufficient to justify change, and it would be preferable to wait until clarity has been achieved throughout the Code – particularly following a restructuring of the Code.

