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Proposed Revisions to the Non-Assurance Service Provisions of the Code

Dear Mr Siong,

On behalf of RSM International Limited, a global network of independent accounting and consulting firms, we are pleased to respond to your Consultation Paper – Proposed Revisions the Non-Assurance Service Provisions of the Code.

We support the objective of the project to ensure all Non-Assurance Service (NAS) provisions in the International Independence Standards (IIS) are robust and of high quality for global application to increase confidence in the independence of audit firms. We are broadly supportive of the proposed changes but we believe that improvements could be made to the provisions to ensure that they are consistently applied throughout the Code and we have included recommendations below.

Set out below are our responses to specific questions posed in this Consultation.

Responses to Request for Specific Comment

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?**

We support in principle the proposal to establish a prohibition on providing NAS that create a self-review threat to PIE audit clients but we believe it is important that the Code is clear on how to assess when a self-review threat will arise and that this is applied consistently throughout the Code. We do not believe that the proposed Code currently achieves this, as set out below:

Application material 600.11 A2 explains that:

“Identifying whether the provision of a non-assurance service to an audit client will create a self-review threat involves determining whether there is a risk that:

- (a) The results of the service will affect the accounting records, internal controls over financial reporting, or the financial statements on which the firm will express an opinion;*
- (b) In the course of the audit of those financial statements, the results of the service will be subject to audit procedures; and*

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(c) When making an audit judgment, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm in the course of providing the service.”

We think it would be helpful for IESBA to provide more guidance as to the meaning of (b) and (c). Whilst there is no definition of audit procedures and audit judgments in the ISAs, we think that it should be clarified that audit procedures and audit judgments are meant in the IESBA code as they are meant in the ISAs. Additional application guidance relative to when certain services would create a self-review threat that would prohibit performing them for PIE audit clients would be helpful.

As written, we infer from 600.11 A2 that a self-review threat arises if all three factors are relevant, including that the audit team will rely on judgments or activities performed by the firm/network firm in doing the audit. We agree that this is a reasonable approach in determining whether a self-review threat applies generally.

However, in the proposed Code section 601, the following statement is made: “601.3 A1 Providing accounting and bookkeeping services to an audit client creates a self-review threat when the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion.”

This seems to contradict the application material 600.11 A2; it implies the self-review threat arises regardless of whether the results of the service are subject to audit procedures or whether the audit team will evaluate or rely on judgments made.

We feel this is important to clarify given that R601.5 states that, “A firm or a network firm shall not provide accounting and bookkeeping services to an audit client that is a public interest entity if the provision of such accounting and bookkeeping services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion”

Contrast this to 601.3A1 and 604.3A1 which states that “Providing a valuation service to an audit client might create a self-review threat when the results of the service will affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.” And, “Providing tax services to an audit client might create a self-review threat when the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion.”

It is not clear whether the code is expressing that an accounting service that affects the accounting records or financial statements on which the firm will express an opinion always creates a self-review threat whereas a valuation service or tax service with the same effect only *might* create a self-review threat.

R604.19 seems to contradict the general prohibition on services that create a self-review threat: “A firm or a network firm shall not perform a valuation for tax purposes for a public interest entity if the provision of that service will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion, unless:

- (a) The underlying assumptions are either established by law or regulation, or are widely accepted; or*
- (b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation,*

and the valuation is subject to external review by a tax authority or similar regulatory authority.”

This implies that a service with a self-review threat can be provided which contradicts R600.14A. The alternative would be to infer that the reason why such a service is permissible is because part c) of R600.14A applies. That is, because the underlying assumptions are established by law or regulation, the auditor would not “... evaluate or rely on any judgments made or activities performed by the firm or network firm...”.

If this is the case, we think it would be clearer to state, under R604.19, that “A firm or network firm shall not perform a valuation for tax purposes for a public interest entity if the provision of that service will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion. This will be the case unless:...”

The latter approach would seem to be consistent with 604.12A2: “Providing tax advisory and tax planning services, will not create a self-review threat if such services:

- (a) *Are supported by a tax authority or other precedent;*
- (b) *Are based on an established practice (being a practice that has been commonly used over a long period and has not been challenged by the relevant tax authority); or*
- (c) *Have a basis in tax law that is likely to prevail.”*

We infer that the reason why a self-review threat does not apply in these cases is because the auditor does not “... evaluate or rely on any judgments made” as any advice is supported it is backed up by tax legislation.

In light of the above, it would therefore seem consistent to modify the wording of section 601.3A1 and section 604.8A1 to state that such services “create a self-review threat where the factors set out in R600.14A apply”.

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?

We consider that there is a big difference between providing advice and recommendations, whilst not providing a management responsibility, and doing something on behalf of a client. We think it very unlikely that a self-review threat would apply in providing advice and recommendations because the auditor would not be relying on the judgment of the accounting firm but, rather, the judgment of management. We consider that it is important to clarify in 600.12 A1 that advice and recommendations such as those described in 601.2A2 (copied below) would not create a self-review threat. It would not be logical if such services provided as part of a non-assurance service created a self-review threat but did not when provided as part of the audit.

“601.2 A2 The audit process necessitates dialogue between the firm and the management of the audit client, which might involve:

- *Applying accounting standards or policies and financial statement disclosure requirements.*
- *Assessing the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities.*
- *Proposing adjusting journal entries arising from audit findings.*
- *Responding to questions relating to financial reporting*
- *Discussing how to resolve account reconciliation problems.*
- *Analyzing information for regulatory reporting purposes.*
- *Discussing how to comply with group accounting policies.*
- *Discussing how to convert existing financial statements from one financial reporting framework to another.*

These activities do not usually create threats as long as the client accepts responsibility for making the decisions involved in the preparation of accounting records or financial statements and the firm does not assume a management responsibility.”

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.

We do not believe that the definition of Listed entity and PIEs needs to be reviewed in the IESBA code. Governments and regulators have set the definition of PIEs at national level to include the entities which they consider to be of Public Interest in their local economy and society. Based on this local regulators might impose additional independence requirements. We believe that the IESBA code should recognise that the local law prevails and so the PIE definition in the code should remain principles based.

One potential risk with the IESBA code having a global definition of PIE is that it could cause inadvertent restriction in services and other relationships at certain entities that are subject to a local territory regulation that has its own rules for PIE audit clients with its own definition of PIE audit clients.

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")?**

Our answer to this question depends on the responses we have provided to questions 1. and 2. If the definition of self-review threat includes considering whether: "*When making an audit judgment, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm in the course of providing the service.*" then we would support removing the materiality qualifier. We do not believe that a service where the potential threat is a self-review threat should be prohibited if the results of the service were not subject to the audit of the PIE.

- 6. Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of we 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)?**

Yes, we support the proposal.

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)?**

Yes, we support this proposal in principle. However, we believe that this will impose an administrative burden on the audit clients and audit firms. We suggest that IESBA considers other regulatory requirements for seeking audit committee preapproval to confirm that its approach is consistent. For example, the SEC's rules on audit committee preapproval apply to consolidated entities rather than entities over which the audit client controls. In the context of a public interest private equity audit, this would mean that IESBA would require audit committee approval for any service to a portfolio company controlled by the audit client. This seems unnecessarily burdensome, and introduces new requirements to an established regulation.

We agree that there should be flexibility in the method of seeking approval from TCWG and that the IESBA code provides guidance on this. For example, it should be permissible to preapprove specified services with TCWG on an annual basis. It would be helpful if the IESBA code specified that only if a service is proposed throughout the year that had not been preapproved by TCWG should the audit firm need to seek specific concurrence.

In terms the sorts of things that should be communicated to TCWG, we suggest that this includes the size and type of fee proposed. This would seem to align with the proposed amendments related to the IESBA Code Fee project.

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?**

Yes, we support this proposal.

- 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?**

Yes, we support this proposal in principle but we believe that it would be helpful to provide more guidance for the auditor to be able to assess the risk created by the provision of multiple NAS.

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?**

Yes, we support this proposal

- **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?**

We support the proposal subject to our understanding of the self-review threat outlined in response to 1. And 2.

- **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)?**

Yes, we support this.

- **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?**

Yes, we support this.

Proposed Consequential Amendments

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

Yes, we support this.

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

Other than what we have set out in response, we are not aware of other changes needed.

We would be pleased to discuss our comments further with members of the IESBA or its staff. If you have any questions or comments please do not hesitate to contact Pete Oastler (+44 (0) 7799 510 816) or me (+44 (0)207 601 1077).

Yours sincerely



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