



National Audit Office

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Dear Ken

IESBA consultation on proposed changes to certain non-assurance services provisions

The National Audit Office (NAO) is pleased to comment on the above consultation paper. The NAO, on behalf of the Comptroller and Auditor General, carries out the external audit of UK Central Government departments, and a wide range of other UK and international public bodies.

The NAO, a Supreme Audit Institution (SAI), applies ISAs (UK and Ireland) issued by the UK Financial Reporting Council and also complies with APB Ethical Standards, which incorporate more restrictive requirements than the IESBA Code.

Our main concern with this proposal relates to the redefinition of what constitutes a management responsibility. We believe the new definition is too wide and no longer represents what genuine management responsibility entails, particularly in larger entities. Detailed responses to the specific questions raised in the consultation are attached.

We would be happy to engage further with you on any of the issues we have raised.

Yours sincerely

**Maggie McGhee**

Director General, Quality Assurance

## Responses to questions posed in the consultation

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

We do not consider that there are any situations that warrant retention of the emergency exceptions in this area and believe that there will always be more appropriate alternative options available to audited entities facing these kinds of challenging situations.

2. Does the change from "significant decisions" to "decisions" when referring to management responsibilities enhance the clarity of a management responsibility?

We disagree with the proposed change and do not believe the new description is an accurate description of what constitutes a management responsibility. Together, the deletion of the word "significant" and the addition of the word "controlling" in paragraph 290.162 means that many activities of relatively junior staff in an entity could be construed as being "management responsibilities". This is not an accurate description of the plain meaning of the phrase. In the context of ethics, and the restrictions placed on roles involving management responsibilities, this definition does not make sense.

A particular concern we have relates to the limited circumstances in which loan staff assignments are permitted under section 290.140 of the current Code. The redefinition of management responsibility would effectively mean that no useful temporary staff assignments could be undertaken. As a Supreme Audit Institution, where by law, we are responsible for the audits of every entity within the central government sector, temporary staff assignments are important to us to build sector knowledge in our audit staff and enable us to meet our statutory responsibilities effectively. Such assignments would breach the Code if the definition of management responsibilities is amended in this way. If IESBA wishes to have truly general purpose standards suitable for all audits, we would recommend it engages with the Supreme Audit Institution community to ensure that the standards and restrictions reflect the risk profile across all audits, not just those in the private sector.

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

We do not recognise some of these activities as necessarily being the responsibility of management, but can often be the responsibility of more junior client staff. For example:

- The recruitment of junior staff members within a large entity, particularly on a temporary basis, would not always be performed by management.
- Supervising employees in relation to the employees' work for the entity is a supervisory responsibility, not a management responsibility.
- Day to day control of bank accounts would not ordinarily be a management responsibility but an administrative finance activity.

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?

Clients engage external advisors where they feel they do not possess the relevant expertise internally. As such they are unlikely ever to reject the advice provided by these services. While the designation of a senior individual to oversee the work and evaluate its adequacy is an

admirable objective, we would be concerned that in practice this is likely to be a formality. The substance of the relationship between management and their professional advisors (or the reliance on experts by management) is very unlikely to change as a result of this amendment.

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

While we support the objective of IESBA in clarifying by providing further examples, we do not believe the examples that have been included are appropriate and therefore will not help individuals or engagement teams better meet the requirement of not assuming a genuine management responsibility. Our response should not be understood to mean that we think that it is appropriate for auditors to be performing activities such as these for their clients, simply that some are unlikely to be performed by management of an entity.

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

We do not object to the proposed relocation of this guidance, but do not think that it enhances the guidance either. Questions about activities of this nature are raised as soon as management responsibilities begin to be defined, so arguably it is better left in its original position.

7. Does the proposed guidance on "routine or mechanical" clarify the term, or is additional guidance needed?

These examples seem reasonable and clear.

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

This is sufficiently clear.

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

Please see our response to question 2 regarding the definition of a management responsibility, which is repeated here and which we do not believe is accurate.

The additional requirements of paragraph 291.146 are helpful in ensuring that client management takes responsibility for decisions that are rightly theirs in relation to non-assurance services.

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

We do not believe these all represent responsibilities of management and refer you to our answer to question 2.

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

We do not object to the proposed relocation of this guidance, but do not think that it enhances the guidance either. Questions about activities of this nature are raised as soon as management responsibilities begin to be defined, so arguably it is better left in its original position.