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May 21, 2020

By email: KenSiong@ethicsboard.org

International Ethics Standards Board for Accountants
529 5th Avenue
New York, New York 10017

Re: *Proposed Revisions to the Non-Assurance Services Provisions of the Code*

Dear Mr. Ken Siong, Senior Technical Director:

The Center for Audit Quality (CAQ) is an autonomous public policy organization dedicated to enhancing investor confidence and public trust in the global capital markets. The CAQ fosters high-quality performance by public company auditors; convenes and collaborates with other stakeholders to advance the discussion of critical issues that require action and intervention; and advocates policies and standards that promote public company auditors' objectivity, effectiveness, and responsiveness to dynamic market conditions. Based in Washington, DC, the CAQ is affiliated with the American Institute of CPAs (AICPA). This letter represents the observations of the CAQ but not necessarily the views of any specific firm, individual, or CAQ Governing Board member.

The CAQ believes auditor independence is foundational to audit quality. Being independent is a core part of the auditor's role, and thus maintaining and enhancing independence are top priorities for the auditing profession. As such, we appreciate the opportunity to share our views and provide input on the International Ethics Standards Board for Accountants' (Board or IESBA) Exposure Draft, *Proposed Revisions to the Non-Assurance Services Provisions of the Code* (Proposed Revisions or proposal). The CAQ firmly believes that auditor independence requirements play a critical role in helping to protect the reliability and integrity of financial statements. We are committed to helping ensure that revisions to the Board's 2018 International Code of Ethics for Professional Accountants (Code) are designed to continue enhancing investor protection.



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We believe a strong independence framework with appropriate safeguards can allow for non-assurance services. We agree with findings of a recent report¹ that “robust independence rules have evolved over the past two decades to mitigate real or perceived risks of conflict of interest associated with audit firms providing non-audit services, and these should continue to evolve in order to keep pace with public expectations and emerging challenges.” Accounting firms today provide both assurance and non-assurance services to be responsive to the growing complexity and specialized nature of businesses today. The multidisciplinary model is one of the best mechanisms to develop the skills, expertise and consistency needed for high quality audits. When subject to appropriate evaluations under IESBA’s existing conceptual framework, non-assurance services provided to audit clients do not unacceptably threaten auditor independence. For these reasons, we commend the Board for continuously evaluating and revising these important rules which safeguard auditor independence and investor protection while continuing to allow certain non-assurance services.

The following observations are for the Board’s consideration:

1. *Timing of the Public Interest Entity (PIE) Definition Project - We suggest the Board complete the PIE definition project before moving forward with approval and issuance of the non-assurance services standard.*

We agree with the Board’s view that stakeholders of PIEs have heightened expectations regarding the audit firm’s independence and, similarly, we agree with the provision of independence standards specific to PIEs.

The definition of PIE is integral to consideration of the Proposed Revisions in the non-assurance services standard. There is uncertainty as to whether the current project to revisit the definition of a PIE will result in a revised definition that includes a broader array of entities. Accordingly, our comments herein are based on, and should be considered by the Board solely in the context of our understanding of PIEs as they would be determined under the extant Code.

We recommend that the Board complete the PIE definition project before moving forward with approval and issuance of the non-assurance services standard. This will enable stakeholders to consider the non-assurance services proposal in the context of a potentially expanded PIE definition.

Given the nature and extent of the new independence requirements proposed for PIEs, most notably, the prohibition of non-assurance services that result from the creation of a self-review threat in relation to the financial statements on which the audit firm will express an opinion, we believe these are important considerations.

¹ [Audit Quality in a Multidisciplinary Firm](#), published September 25, 2019 by the International Federation of Accountants in partnership with Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants.



2. *Identifying a Self-Review Threat – We suggest modification to the criteria for identifying a self-review threat.*

We appreciate the Board's diligence in drafting the overarching prohibition of providing non-assurance services to PIE audit clients when a self-review threat will be created, and we are supportive of such prohibition. However, we believe there may be diversity among users of the Code in the interpretation and application of the three criteria for identifying the creation of a self-review threat provided in points (a), (b), and (c) of 600.11 A2 due to the use of the phrase "whether there is a risk that" in the lead-in paragraph to the three criteria. In addition, considering the "risk" that the three criteria will occur without scaling for the probability of such occurrence could result in an interpretation that virtually all non-assurance services provided to PIEs would be prohibited, which we do not understand to be the Board's intention and we would not support.

As such, we recommend removing the words "there is a risk that" from the application guidance as noted below:

600.11 A2 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
- 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.

3. *Providing Advice and Recommendations – We encourage the Board to provide examples of situations when providing advice and recommendations are likely and not likely to create a self-review threat.*

As stated in extant paragraph 600.7 A4, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. Proposed paragraph 600.12 A1 states that providing advice and recommendations might create a self-review threat. The revisions proposed by IESBA are insufficiently clear when a firm may have assumed a management responsibility when providing advice and recommendations. Thus, there is the potential for the Proposed Revisions to be broadly interpreted as prohibiting advice and recommendations. Specifically, it would be helpful for the Board to provide examples of situations where a self-review threat may exist as well as situations where a self-review threat likely does not exist.



4. *Communication with Those Charged With Governance Regarding Non-Assurance Services – We encourage the Board to include a materiality qualifier and limit the scope to consolidated entities.*

The proposal includes a new paragraph – R600.18 – which states, “Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client that is a public interest entity which, for this purpose, shall include only **related entities over which the audit client has direct or indirect control** the firm shall provide those charged with governance with sufficient information to enable them to make an informed decision about the impact of the provision of such a non-assurance service on the firm’s independence.”

As this is consistent with the requirements in the US, we generally support the requirement to obtain concurrence of those charged with governance for the provision of a non-assurance service to the audit client. However, we recommend the Board consider a de minimis threshold under certain circumstances. For example, US Securities and Exchange Commission’s (SEC) Rule 2-01(c)(7)(i)(C), states,

“With respect to the provision of services other than audit, review or attest services the pre-approval requirement is waived if:

- (1) The aggregate amount of all such services provided constitutes no more than five percent of the total amount of revenues paid by the audit client to its accountant during the fiscal year in which the services are provided;
- (2) Such services were not recognized by the issuer or registered investment company at the time of the engagement to be non-audit services; and
- (3) Such services are promptly brought to the attention of the audit committee of the issuer or registered investment company and approved prior to the completion of the audit by the audit committee or by one or more members of the audit committee who are members of the board of directors to whom authority to grant such approvals has been delegated by the audit committee.”

Further, we recommend the Board revise paragraph R600.18 to apply only to the public interest entity and those entities consolidated into the audit client’s financial statements, similar to SEC Rule 2-01(c)(7). By including the language “shall include only related entities over which the audit client has **direct or indirect control**” the proposal may extend beyond the public interest entity’s consolidated entities. In the private equity space, this may be particularly problematic as controlled entities are not always consolidated into the audit client’s financial statements.

In this instance, we encourage an approach similar to the SEC’s independence rules. We believe avoiding unnecessary differences among rules and standards that are well understood promotes investor protection.

CAQ

5. *Accounting and Bookkeeping – We encourage the Board to clarify that responding to questions related to technical accounting matters during an audit usually does not create a self-review threat.*

Similar to the extant Code, proposed Subsection 601, Accounting and Bookkeeping Services, describes management's responsibility for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. We agree with proposed paragraph 601.2 A2 which acknowledges that the audit process necessitates dialogue between the firm and management of the audit client and that such 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.

The Board's extant paragraph 601.3 A4 specifies that technical assistance or advice on certain matters provided by the auditor "do not usually create threats provided neither the firm nor network firm assumes a management responsibility for the client." We encourage the Board to retain this provision.

We do not support including the 5th bullet related to providing technical advice in proposed paragraph 601.2 A3, which cites examples of accounting and bookkeeping services as follows:

601.2 A3 Accounting and bookkeeping services comprise a broad range of services including:

- Preparing accounting records or financial statements.
- Recording transactions.
- Payroll services.
- Providing technical assistance on matters such as resolving account reconciliation problems.
- Providing technical advice on accounting issues, including the conversion of existing financial statements from one financial reporting framework to another.

We encourage the Board to remove the bullet "providing technical advice on accounting issues..." We are concerned that a dialogue between the firm and the management of the audit client related to technical accounting matters as part of the audit process could be interpreted as providing technical advice and creating a self-review threat. Removing the bullet from 601.2 A3 would clarify that responding to questions and engaging in technical discussions in the normal course of the audit does not usually create a self-review threat.

6. *Tax Services – We support the "likely to prevail" condition included in proposed paragraphs R604.4 (tax services) and 604.12 A2(c) (tax providing advisory and tax planning services).*

We note that both extant paragraph 604.7 A3 and proposed paragraph 604.12 A2(c) state that providing tax advisory and tax planning services will not create a self-review threat if such services "have a basis in tax law that is likely to prevail." It is noted that the Board extensively



deliberated whether to include this condition.² Further, the proposal introduces a new paragraph – R604.4 – which includes the same “have a basis in tax law that is likely to prevail” concept generally for tax services.³

We note that the language “have a basis in tax law that is likely to prevail” varies from the US Public Company Accounting Oversight Board’s (PCAOB) Rule 3522, *Tax Transactions*, which uses the language “at least more likely than not to be allowable under applicable tax laws.” We understand that the proposed requirement is adapted from the PCAOB’s Rule 3522, and is intended to prohibit such tax services and transactions.⁴ Further, we appreciate that the “have a basis in tax law that is likely to prevail” language in the Code is commonly understood and consistently applied in practice. We therefore support the continued inclusion of this language and would expect the “have a basis in tax law that is likely to prevail” language to continue to be interpreted and applied in the same manner under the proposal as the extant Code. We do not believe any higher standard or threshold is appropriate to support the independence of auditors.

7. *Corporate Finance Services - We recommend excluding due diligence services from the description of corporate finance services.*

The inclusion of due diligence services within the definition of corporate finance services in proposed paragraph 610.2 A1 is inconsistent with both market practice and market understanding of corporate finance services. This has the potential to confuse those charged with governance. The approach taken elsewhere in the specific subsections to Section 600 of grouping services with similar independence characteristics together to assist those charged with governance facilitates comprehension of the threats to independence. However, the objective nature of performing due diligence in relation to potential acquisitions and disposals generally does not create a self-review or advocacy threat and is therefore not aligned with the profile of corporate finance services. We recommend excluding the phrase “performing due diligence in relation to potential acquisitions and disposals” from the description of corporate finance services in proposed paragraph 610.2 A1.

² See proposal paragraph 41, page 14.

³ Paragraph R604.4 is a new paragraph applicable to all audit clients and states, “A firm or a network firm shall not provide a tax service or recommend a transaction to an audit client if the service or transaction relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless that treatment has a basis in applicable tax law and regulation that is likely to prevail.”

⁴ See Explanatory Memo to proposal, page 19.



We appreciate the opportunity to comment on the proposal. As the Board and Staff gather feedback from other interested parties, we would be pleased to discuss our comments or answer any questions regarding the views expressed in this letter. Please address questions to Vanessa Teitelbaum (vteitelbaum@thecaq.org) or Catherine Ide (cide@thecaq.org).

Sincerely,

A handwritten signature in black ink that reads "Catherine Ide".

Catherine Ide
Vice President, Professional Practice
Center for Audit Quality

cc:

SEC
Sagar Teotia, Chief Accountant
Marc A. Panucci, Deputy Chief Accountant

IAASB
Thomas R. Seidenstein, Chairman