

Non-assurance Services and Professional Skepticism

Dr. Stavros Thomadakis, IESBA Chairman

Richard Fleck, IESBA Deputy Chair and NAS and PS
Working Group Chair

Patricia Mulvaney, IESBA Member and PS Working
Group Member

Washington, DC Roundtable

June 11, 2018

Agenda

- Welcome and overview
- Non-assurance Services
 - Breakouts
- Professional Skepticism
 - Breakouts
- Closing remarks

Revised and Restructured IESBA Code

- Substantively revised and restructured Code at end of current planning horizon (2018)
 - Major changes to foundations (Enhanced Conceptual Framework, Safeguards) and architecture
 - Enhanced requirements and guidance for PAIBs
 - Robust upgrades (NOCLAR, Inducements, Long Association)
 - Enhanced guidance (Professional Skepticism and Professional Judgment)
- A globally operable platform for the future

**COMPREHENSIVE,
INTEGRATED
SUITE** 

**SIGNIFICANT
UP-
GRADES** 

Future IESBA Strategy and Work Plan

- SWP [consultation paper](#) released April 2018
- Aiming to fulfill distinct but broad goals:
 - Relevance and applicability in a world of changing technologies, business methods and public expectations
 - Strengthening both public interest objectives and trust in the accountancy profession as an integral whole
- Open for public comment until mid-July
 - Finalization Q4 2018



Objective of Roundtable

- To discuss key public interest issues in two high-priority pre-commitments in SWP 2019-23:
 - How best to delineate boundaries of NAS that firms may provide to audit clients
 - How best to meet public expectations regarding exercise of “professional skepticism” by all PAs
- Input to inform direction of IESBA’s standard-setting responses
- Your views and active participation important!



Richard Fleck, IESBA Deputy Chair and
Working Group Chair
Non-Assurance Services

General Policy Objective

Harmonized
global NAS
provisions?

Relevant and robust
NAS provisions
intended for global
applicability

Provisions that
accommodate
jurisdictional
circumstances?

Specific NAS provisions
reflective of national
laws, reg'ns, norms and
customs

Summary of Specific Issues Identified

- Materiality
- PIE and non-PIE provisions
- Unconditional NAS prohibitions (i.e., “black list”)
- New and emerging services
- Auditor communication with TCWG
- Disclosure and other matters

Materiality

- Should materiality or significance be considered when determining whether a firm or network firm is permitted to provide a NAS to an audit client?
 - Retain reference to materiality and significance in Code?
 - Provide additional guidance to enhance consistent application?
 - Other factors?





PIE and Non-PIE Provisions

- Is there merit to having the same global ethics and independence provisions for all entities, irrespective of their nature and size?
- Should NAS provisions for audits of PIEs and non-PIEs be different?
 - Different approach needed?
 - What changes, if any, are required in Code?

Users of audited f/s that are PIEs have unique information needs



Unconditional NAS Prohibitions (i.e., Black List)

- What criteria should be used to determine whether a NAS should be prohibited?
 - Which service(s)?
 - Should new criteria apply to all audit clients?
- In view of issues relating to materiality and PIEs and non-PIEs, are there types of NAS that should be **unconditionally prohibited*** in the Code for PIEs?

* NAS prohibitions that are not qualified by specific circumstances or conditions (e.g., materiality)

New and Emerging Services

- Are there specific types of services, including new or emerging services, that should be dealt with explicitly if not already addressed in Code?
 - Which NAS?
 - Nature and extent of additional guidance required?



Communication between Auditors and TCWG

- What additional req'ts, if any, relating to auditor communication with TCWG should be included in the Code?
 - Should req'ts in ISAs be reflected in Code?
 - Should Code deal with circumstances warranting pre-approval by TCWG, including level of fees?

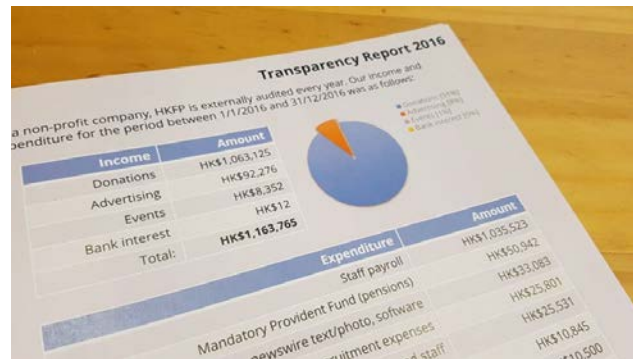
For listed entities – ISAs require auditor communications with TCWG about independence

Code encourages all PAPPs (includes auditors) to communicate with TCWG about independence matters



Disclosure and Other Matters

- What disclosure req'ts about NAS, if any, should be included in Code?
- Should Code establish fee restrictions re NAS (e.g., fee caps)?
 - What factors, if any, should be considered?
- What actions, if any, should IESBA take in response to broader concerns re firms' business models?
 - What role should others play?



Breakouts

Diane Jules, IESBA Deputy Director
Ken Siong, IESBA Senior Technical Director

NAS Breakout Report-Backs and Summarization

Richard Fleck, IESBA Deputy Chair and Working
Group Chair

NAS Recapitulation of Discussions and Way Forward

IESBA[®]

LUNCH

Patricia Mulvaney, IESBA Member and PS
Working Group Member

Professional Skepticism

Views expressed in earlier PS Initiative

- No question asked, but some took opportunity to comment
- Substantive majority of those who commented believe that PS should apply to all PAs
 - Exercise of PS is important for tax and consulting engagements; Code should explain role of PS for those NAS
 - Code should acknowledge that PS enables compliance with FPs
 - Coordination among IAASB, IESBA and IAESB
 - Approach taken by IAESB seems appropriate for the Code
- Some cautioned against potential unintended consequences

Professional Skepticism

- Consultation paper released in May 2018
- Seeking stakeholder views on:
 - Behavioral characteristics comprised in PS
 - Whether all PAs should exercise them
 - Whether the Code should be further developed as a result
- Ongoing close coordination with IAASB and IAESB



Meeting Public Expectations

- Preliminary behavioral characteristics identified by WG
 - Obtaining and understanding information necessary for reliable judgments
 - Making informed challenges of views developed by others
 - Being sensitive to the integrity of information
 - Withholding judgment pending thoughtful consideration of all known and available information
 - Being alert to potential bias or other impediments to professional judgment
 - Ability and willingness to stand ground when facing pressure to do otherwise





What is Behavior Expected of All PAs?

- Proposed articulation:

PAs should:

- (a) Approach professional activities with an impartial and diligent mindset; and*
- (b) Apply that mindset, together with relevant professional expertise, to the evaluation of information with which they are associated.*

- Recognize concept of scalability



Options

1. PS as currently defined in auditing standards
2. PS re-defined
3. Develop another term and definition
4. Enhance guidance in the Code
5. Address role of bias, pressure and other impediments

Choosing Options 1, 2 or 3 would not preclude also doing Options 4 and/or 5



Ken Siong, IESBA Senior Technical Director
John Morrow, IESBA Manager
**PS Breakout Report-Backs and
Summarization**

Richard Fleck, IESBA Deputy Chair and Working
Group Chair

PS Recapitulation of Discussions and Way Forward

Next Steps

- Further roundtables (Paris, Tokyo and Melbourne)
- Full review of roundtable and CP input Sept 2018 IESBA meeting
 - WG recommendations
 - Scope of possible standard-setting projects
- IESBA CAG discussion Sept 2018
- Project proposals anticipated by Q4 2018
 - Issues and approach
 - Proposed timelines

Dr. Stavros Thomadakis, IESBA Chairman

Closing Remarks



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