ACCOUNTANCY EUROPE.

Mr. Ken Siong
IESBA Senior Technical Director
International Ethics Standard Board
for Accountants

Sent by email:
KenSiong@ethicsboard.org

Brussels, 4 June 2020

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

Dear Mr Ken Siong,

Accountancy Europe is pleased to provide you with its comments on the IESBA Exposure Draft (ED) on proposed revisions to the Non-Assurance Services (NAS) provisions of the Code.

We agree that expectations related to auditor's independence are higher for public interest entities (PIE). As a response to that, a self-review threat prohibition is now proposed by IESBA in relation to the audit of PIEs. Whilst, in principle, we are supportive of this proposal, we would highlight that there is a need for greater clarity and certainty in relation to the circumstances that create a self-review threat. In particular, there is a need for clarification on when a self-review threat to the auditor's independence is created due to the provision of a NAS. Unless these concerns are addressed there is potential for confusion as to the exact nature of the proposals. This risk is especially relevant for the provisions where the materiality qualifier is being withdrawn.

Further, we believe in the benefits of aligning the definitions of 'PIE' and 'listed entity' between the Code and the standards issued by IAASB. Simple and global definitions will make it easier for the firms to determine which set of rules apply to a specific engagement.

We support the proposals to strengthen auditor's communication with those charged with governance (TCWG) of the entities. The European Union (EU) rules and International Standards on Auditing (ISAs) have already established a number of requirements in this respect. We have seen that improved communication contributes to audit quality while addressing stakeholders' concerns about auditor's independence.

Finally, the information technologies used by the entities and related services provided by the firms are evolving rapidly. Therefore, we invite IESBA to prioritise its work on the suitability of the Code in the digital age. In this regard, prominence should be given to the provision of the NAS that involve new technologies, and their impact on the auditor's independence.

Sincerely,

Florin Toma
President

Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

ANNEX - REQUEST FOR SPECIFIC COMMENTS

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?*

Yes, in principle, we support this proposal. However, we would highlight our concern that the current wording in the ED is not clear.

We agree that stakeholders have amplified expectations regarding an audit firm's independence and mitigating a self-review threat is challenging especially in the case of PIE audits. However, if the Board is to establish a strict prohibition, it is essential that the circumstances that create a self-review threat should be clearly described. Please also see our response to Question 2.

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?*

No, we do not think that the proposed application material clearly sets out the thought process. As noted in our response to Question 1, there is a need for clarification on when a self-review threat to the auditor's independence is created due to the provision of a NAS.

We see that no amendment is proposed to the definition of self-review threat in the conceptual framework of the extant Code. The proposed paragraph 600.11.A1 further defines the self-review threat within the context of auditor independence. However, we believe that the language used in this and the following paragraph will lead to confusion rather than clarification.

We would like to stress that paragraph 600.11 A2 (b) implicitly refers to materiality which is used by an auditor to determine the nature, timing and scope of audit procedures. We are uncertain how this will work in practice when taken together with the proposals withdrawing the materiality qualifier for certain NAS. Please also see our responses to Questions 5 and 6.

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?*

No, we do not think that these paragraphs are sufficiently clear and appropriate.

We agree that for the cases listed in paragraph 604.12 A2 the provision of tax advisory and planning services to audit clients should be allowed. However, we doubt that a self-review threat, as described in proposed paragraph 600.11.A1, is not created in these cases. It is more likely that a self-review threat which is at an acceptably low level exists.

Additionally, paragraph 600.12 A1 does not seem to provide further guidance. It refers to two other paragraphs proposed by the ED. It mentions the nature and the implementation of the advice or recommendation as risk factors to consider. In our understanding, this is merely an interpretation of

the prohibition on assuming management responsibilities as already stipulated in the extant Code. We believe that this paragraph neglects the importance of management's responsibility for decision making with regards to the output of the NAS. It should also be noted that the provision of advice or recommendation is an implicit part of audit engagements. For instance, the auditor requests management to correct the misstatements identified during the audit. Ultimately, it is the management who makes the decision and takes the responsibility for correcting such misstatements, although failure to do so might result in a qualified audit opinion.

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 are supportive of keeping the distinction between the requirements for PIEs and non-PIEs, and welcome IESBA's plan to re-examine the definitions of 'PIE' and 'listed entity' in coordination with IAASB. We believe that an alignment of the definitions in the Code with the definitions in the ISAs will be beneficial.

We invite IESBA to keep the definitions simple, principles-based and globally acceptable to avoid unintended consequences such as creating additional complexity. In most cases, the eventual delineation is determined by the rules of national or regional jurisdictions such as the EU.

In the EU Audit Regulation, the definition of PIE basically includes listed entities, credit institutions and insurance undertakings. In addition to this, the EU Member States can designate other entities as PIEs.

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")?*

No, we do not support the removal of the reference to materiality in the NAS provisions. We are also not sure how this would work in combination with the ISAs where materiality is considered for determining what type of audit procedures will be applied to different account balances. Indeed, if a NAS could be provided unless it creates a self-review threat, there is a need for the auditor to determine whether the results of providing this NAS would be subject to audit procedures. This is established by applying materiality based on the ISAs. Please also see our response to Question 2.

Withdrawing the materiality qualifier will lead to prohibiting services even if their results will not be covered by the audit procedures and thus, has the potential to create issues with no real benefit.

6. *Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of 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 these proposals.

However, in some cases, it will not be practically possible for an auditor to conclude whether the effectiveness of the advice depends on a particular accounting treatment or presentation before actually doing the work. The same concern is valid for auditor's evaluation of the appropriateness of the accounting treatment or presentation. Please also see our response to Question 5.

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 the proposals, acknowledging that improved communication with TCWG will contribute to audit quality. It should be encouraged and promoted, especially for the entities where TCWG are independent from management. This will also contribute to addressing stakeholders' concerns about the auditor's independence.

We also welcome IESBA's objective to allow for maximum flexibility with respect to the process or manner in which firms obtain concurrence from TCWG. Nevertheless, the intention to accommodate varying corporate governance regimes is not clearly reflected in the wording of the requirement. Therefore, this needs to be addressed.

According to the EU Audit Regulation, the provision of a NAS by the statutory auditor to a PIE audit client is subject to the approval of the audit committee after the committee has properly assessed threats to auditor's independence and the safeguards applied. Our understanding is that this already meets the new requirements proposed by IESBA and there will be no additional requirement for audit firms in the EU.

In our view, the requirement for obtaining concurrence from TCWG before providing a NAS should not be extended to non-consolidated entities over which the audit client has direct or indirect control. This approach would be inconsistent with other regulations (e.g. the EU Audit Regulation and the SEC rules) that require the audit committee's pre-approval for services provided to the audit client and its consolidated entities only. While the EU pre-approval requirements refer to the audit client and its controlled undertakings, the concept of controlled undertakings follows the EU Accounting Directive and is understood to mean the audit client and its consolidated entities.

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 the repositioning of the provisions relating to assuming management responsibility to give them more prominence.

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 believe that additional considerations are required when a firm or a network firm provides multiple NAS to an audit client. However, the application material in paragraph 600.10 A1 does not provide sufficient guidance on the understanding and evaluation of the combined effect. Therefore, the elevation has the potential to create additional uncertainties.

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?

• 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?

• 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)?

• 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, overall, we support these proposals subject to the comments below.

Regarding the requirement in paragraph R604.4, whether the entity has a tax avoidance motive or not does not have a direct impact on the auditor's independence. Moreover, as currently explored by the IESBA Tax Planning and Related Services Working Group, it is not straightforward since every jurisdiction has its own definition of tax avoidance. We believe that it is more appropriate to deal with related ethical implications on the behaviour of professional accountants within the scope of this Working Group's workstream.

Additionally, in Section 607, it should be acknowledged that the considerations will be different in cases where the court calls the auditor as a witness.

Proposed Consequential Amendments

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

Yes, we support the consequential amendments to Section 950 in order to maintain its alignment with the provisions of Section 600.

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

We would like to note that one of the areas where the Code is not up to date is technology. There is a need for principles-based provisions about the implications of the use of technology on professional ethics.

Various types of NAS related to information technologies are being provided by the firms. The implications of these are not covered by Section 600 of the extant Code. We are uncertain about the efficiency of the approach taken by IESBA which leaves all the technology related matters to the work of its Technology Task Force.

Finally, withdrawing the materiality qualifier for certain NAS may have an impact on the communication requirements related to breaches of independence provisions. Therefore, IESBA should consider whether relevant parts of the Code warrant a conforming change.