

**BY E-MAIL ONLY**

International Ethics Standards Board for Accountants

To: Mr. Stavros Thomadakis (Chair)

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Date: 11 May 2020

Subject: COMMENTS ON THE IESBA EXPOSURE DRAFT ON NON-ASSURANCE SERVICES

Dear Mr. Thomadakis,

1. The International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to comment on the International Ethics Standards Board for Accountants (IESBA) request for input on the Exposure Draft (ED) on the provision of Non-Assurance Services (NAS) to an audit client. As an international organisation of independent audit oversight regulators that share the goal of serving the public interest and enhancing investor protection, IFIAR is committed to improving audit quality globally through the promotion of high-quality auditing and professional standards, as well as other pronouncements and statements.
2. IFIAR's objectives are as follows:
  - Sharing knowledge of the audit market environment and practical experience of independent audit regulatory activity, with a focus on inspections of auditors and audit firms.
  - Promoting collaboration and consistency in regulatory activity.
  - Initiating and leading dialogue with other policy-makers and organisations that have an interest in audit quality.
  - Forming common and consistent views or positions on matters of importance to its members, while taking into account the legal mandates and missions of individual members.
3. The comments we provide in this letter reflect the views expressed by many, but not necessarily all, of the members of IFIAR. However, the comments are not intended to include, or reflect, all of the views that might be provided by individual members on behalf of their respective organisation.

4. Where we did not comment on certain specific matters this should not be interpreted as either approval or disapproval by IFIAR.
5. The IESBA Code of Ethics (the Code) is used by some IFIAR members, but not by all of them. Moreover, a number of audit firms have voluntarily committed to complying with the Code. As a result, IFIAR has an interest in enhancing the quality, clarity and enforceability of the Code, even though existing ethical rules or provisions in force at national level supersede those of the Code on certain aspects.
6. As audit regulators, we believe that the Code should be clear and enforceable and allow for audits to be performed on a consistent basis. The Code should incorporate provisions required to ensure appropriate and consistent auditor behaviour: this means, for IESBA, to articulate clear ethical principles and supporting ethical provisions, along with clearly linked requirements, to promote better ethical behaviours and outcomes.
7. We welcome IESBA's initiative aimed at developing more robust requirements in the Code to protect auditors' independence when providing Non-Assurance Services to audit clients. These efforts represent a step-forward to enhancing confidence and public trust in the audit profession. Nonetheless, we are of the view that the proposed requirements should be enhanced in the light of the comments below.
8. Please note that our comments are mostly focused on the provisions of the Code applicable in the case of audit clients that are Public Interest Entities (PIEs).

### ***Overarching***

9. We note that in many jurisdictions the provision of Non-Assurance Services to an audit client which is a PIE is regulated applying a very strict approach including a list of prohibited services. We invite IESBA to reinforce the proposed requirements in order to take more into consideration the rules already in place and thereby contributing to the improvement of consistency across jurisdictions.

### ***Terminology used***

10. Throughout the ED reference is made to wording and notions which require judgment and are subjective, such as, for instance, "long period" (604.12 A2), "significant degree" (R603.4), "not significant" (603.3 A1) or "appropriate reviewer" (600.16 A3 and further examples of safeguards in subsequent subsections). We suggest that explanations of the words in the respective context be included and/or that examples are provided to help users in applying the provisions in the Code appropriately and consistently.

### ***Self-review threats and related entities***

11. We support the proposal in R600.14 to establish a self-review threat prohibition for provision of NAS to PIEs. We note that this prohibition, combined with the meaning of *related entities* defined in R400.20, applies to all related entities of listed entities (including parent undertakings) and only to controlled undertakings for other entities. As a consequence, the prohibition in R600.14 is not applicable to parent undertakings of PIEs other than listed entities. We believe that there should be a level playing field for all PIEs in this regard which is indeed the current approach in many jurisdictions. The definition of related entities to be covered by the provisions should be the same for all type of PIEs (whether listed or not).

### ***Communication with Those Charged with Governance (TCWG) regarding Non-Assurance Services and related entities***

12. We support the proposals for improved audit firms communication with TCWG, namely to provide TCWG with information about the impact of the NAS provisions on the audit firm's independence and to obtain concurrence from TCWG on the provision of services. However, we note that the new requirements in R600.18 and R600.19 to provide a NAS to an audit client that is a PIE include for these purposes only related entities over which the audit client has direct or indirect control. Parent undertakings are therefore not subject to these new requirements, meaning that NAS can be provided to parent undertakings of PIEs without information to and concurrence from TCWG of those PIEs. We suggest to add a requirement in the Code that provides for TCWG of the PIE to at a minimum be informed about the provision of the NAS to the parent undertakings because this situation could raise significant threats to the PIE's auditor independence that should be evaluated by TCWG of the PIE itself.

### ***Non-Assurance Services provided in the previous year to an audit client that is a PIE***

13. In line with the approach taken by many jurisdictions, we welcome the requirements in R400.32 (regarding the provision of NAS to a PIE client prior to the appointment as an auditor) and in R600.20 (NAS provided to an audit client that later becomes a PIE). However these requirements should recognize that in some cases certain services provided in the previous years will be conflicting and may impair the audit firm's ability to be appointed as an auditor or to continue as an auditor (for example: designing and implementing internal control or risk management procedures related to the preparation and/or control of financial information or designing and implementing financial information technology system).

***Specific requirements for certain types of Non-Assurance Services to audit clients that are PIEs***

14. The subsections of the Exposure Draft listed hereafter contain new requirements:

- Subsection 601 Accounting and Bookkeeping Services (R601.5)
- Subsection 603 Valuations Services (R603.5)
- Subsection 604 Tax Services (R604.10; R604.15; R604.19; R604.24)
- Subsection 605 Internal Audit Services (R605.6)
- Subsection 606 Information Technology Systems Services (R606.6)
- Subsection 607 Litigation Support Services (R607.6)

Those requirements establish a prohibition to provide the specific Non-Assurance Service to an audit client that is PIE if the provision of that service will create a self-review threat in relation to the audit of the financial statements on which the auditor will express an opinion. We appreciate the efforts in drafting more stringent requirements for the provision of specific Non-Assurance Services for audit clients that are PIEs. However, we note that, in many jurisdictions, the above mentioned services are considered as creating self-review threats in almost all circumstances. Therefore, we believe that the current proposals still leave too much room for PIE auditors in evaluating the self-review threats. We suggest IESBA to strengthen the requirements proposed in the Exposure Draft at least by elevating the application material in paragraph 600.11 A2<sup>1</sup> into a requirement.

***Using professionals which are not members of the audit team***

15. We support the proposal in the ED to provide examples of safeguards that could be applied to address risks on independence. However, we do not support conveying the idea that “using professionals who are not audit team members to perform the service” is a provision which, in most of the situations, would be a sufficient safeguard (in several instances in the ED e.g., in relation to advocacy threats). We do not believe it would be a sufficient safeguard in all cases

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<sup>1</sup> Those circumstances mentioned in par 600.11.A2 are:

- (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.

to use professionals who are not members of the firm's audit team to provide non-audit service, or, if the work is done by a member of the audit team, having another professional outside the audit team review the work.

***Applying the conceptual framework***

16. In our view, R600.8 and R400.12 should first require to apply law/legislation/regulation, and only thereafter the conceptual framework.

***Non-Assurance Services provisions in laws or regulations***

17. We note that the paragraph 600.6 A1 - to comply with more stringent legal requirements where relevant - should be a requirement. Furthermore, IESBA should more specifically address in the same paragraph that auditors should consider NAS rules in effect in other jurisdictions that could have an impact in their audit engagement, for instance if the audit client's financial statements will be filed in another jurisdiction.

Should you wish to discuss any of our comments, please do not hesitate to contact me or Martijn Duffels, Chair of the IFIAR Standards Coordination Working Group.

Yours Faithfully,



Frank Schneider  
IFIAR Chair

Cc: Duane M. Desparte, Vice Chair,  
Martijn Duffels, SCWG Chair,  
Carl Renner, Executive Director