

### Non-Assurance Services—Issues Paper

#### A. Background

1. At its December 2013 meeting, the Board provided feedback to the Task Force's recommendation to delete the emergency provisions pertaining to bookkeeping and taxation services and the Task Force's proposed enhancements to the subsections entitled *Management Responsibilities* and *Preparing Accounting Records and Financial Statements* of Section 290<sup>1</sup> of the Code. The Task Force has considered the feedback and has since made further enhancements to the guidance. The Task Force requests the Board to approve the proposed revised guidance for exposure. A comparative analysis of the edits made to the Management Responsibilities and Preparing Accounting Records and Financial Statements provisions is presented in Agenda Items 2-D and 2-G, respectively.

#### B. Emergency Exception

2. At the December 2013 IESBA meeting, the Board generally agreed with the Task Force's recommendation to delete the emergency situation provisions as they pertain to bookkeeping (paragraph 290.174) and taxation services (paragraph 290.186).
3. The Task Force considered the recommendation and still believes the provisions should be deleted from the Code due to the following conclusions:
  - A situation in which an emergency provision should be allowable should be so rare and extraordinary that it should not be addressed by the Code, nor should the determination to use the provision be made by the auditor and the client; it should be addressed by a local regulator;
  - Removing the emergency provisions would strengthen the Code by removing the potential for misuse of the provisions due to subjective terms such as "emergency" and "unusual situations" included in the extant guidance; and
  - The Code would be strengthened by the fact that if a regulator did allow an emergency provision within a jurisdiction due to a rare and extraordinary event, the firm would have to implement the provisions addressing breaches of the Code which would address threats to independence during the performance of prohibited services in the emergency exception.

#### Matter for Consideration

1. IESBA members are asked whether they support exposing for comment the proposed deletion of paragraphs 290.174 and 290.186.

<sup>1</sup> Section 290, *Independence – Audit and Review Engagements*

## C. Management Responsibilities

### *Edits to Paragraphs 290.162 and 290.163 since the December 2013 Meeting*

4. At the December 2013 meeting, the Task Force proposed the following edits to paragraph 290.162 (additions in bold italics, deletions stricken):

However, management responsibilities involve **controlling, planning**, leading and directing an entity, including making ~~significant~~ **judgments and** decisions regarding the acquisition, deployment and control of human, financial, physical, **technological** and intangible resources

5. There was concern that deleting the term “significant” could be interpreted to as prohibiting even minor judgments, or professional judgments made in the normal course of providing permitted bookkeeping services. The Task Force agreed that an auditor is permitted to make professional judgments in the course of performing professional services, however, only the client may make decisions pertaining to the acquisition, deployment and control of human, financial, physical, technological and intangible resources. Thus, the Task Force agreed to remove “judgments” from the sentence and recommend the term “significant” be deleted.
6. The Task Force agreed that the first two sentences of paragraph 290.162 do not add value to the guidance. Thus, the Task Force proposes to delete the sentences in order to make the guidance clear and direct.
7. The sentences within proposed paragraph 290.163 have been reordered such that the prohibition is stated within the first sentence of the paragraph. The prohibition in the first sentence creates prominence and provides clarity to a user of the Code.

#### **Matter for Consideration**

2. IESBA members are asked whether they agree with the edits made since the December 2013 meeting to paragraphs 290.162 and 290.163.

### *Examples of Management Responsibilities*

8. The Task Force agreed to delete the term “generally” from proposed paragraph 290.164. A member of the CAG noted that all of the examples are management responsibilities and it would be difficult to provide an example of when such activities would not be considered to be management responsibilities. The Task Force agreed with the analysis and thus recommends to the deletion of the term “generally.”
9. The Task Force agreed to insert the phrase “Subject to compliance with paragraph 290.165” before the sentence “providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.” This is due to the fact that the statement directly follows examples of management responsibilities. Thus, if the auditor were to provide advice on, for example, the hiring or terminating of a client employee, the auditor should follow the requirements of proposed paragraph 290.165 to ensure that client management assumes all responsibility associated with the recommendation of the auditor. Such advice or recommendations would include those pertaining to management functions and would not include routine advice that is part of the client-auditor relationship.

*Custody of Client Assets and Maintaining a Client's Financial Records*

10. At the December 2013 meeting, the Board requested the Task Force consider whether the guidance should state that custody of a client's assets by the auditor be considered a management responsibility and whether maintaining a client's financial records would be an activity that would be considered routine or mechanical.
11. The Task Force agreed that it would generally be a management responsibility take possession and manage certain assets, such as a bank account or investments of the client. However, the Task Force also noted that there is some ambiguity across jurisdictions concerning the practice of taking possession of a client asset and the parameters of "taking possession of an asset." For example, in some jurisdictions, clients may advance funds to an audit firm for specific types of audits. Also, some jurisdictions do not prohibit the firm from taking possession of assets, such as in a trust for a specified time in the performance of certain services. Such possession of assets may pose an acceptable level of threats to independence if certain safeguards are in place. Also, such possession may be in the public interest if the threats are indeed at an acceptable level and the performance of the services cannot be performed without such possession.
12. There is also ambiguity over what might constitute a client asset. For example, there may be confusion as to if a client record would be considered to be an asset, specifically an electronic file. Further, taking possession may be understood differently among different jurisdictions as noted by the discussion of advances to audit firms, taking possession in connection with certain services as allowed by law, and what constitutes the possession of an electronic file.
13. Based on the fact that custody of client assets is addressed in Section 270 of the Code and the analysis above, the Task Force agreed that adding "taking possession of client assets" as an example of a management responsibility would not be considered a clarifying edit, and thus would be beyond the mandate of the project proposal. Therefore, the Task Force recommends the Board consider studying the matter of broad assets further and possibly creating a separate Task Force to address the topic. However, the Task Force does proposed including an example in proposed paragraph 290.164 stating that "control or management of a client's bank account and investments" be considered a management responsibility.
14. Maintaining client records is related to the topic of custody of client assets, as, the central matter of the question is who has possession of the files. The topic of maintaining client records also contains ambiguity concerning the possession of client records. For example, client records that are in the cloud, yet, the auditor has access through a portal may or may not be considered to be in possession of the auditor. Based on the vast complexities associated with the information technology environment and the numerous types of software present, a proposal of a "clarifying edit" would not be sufficient and is beyond the mandate of the project proposal. Thus, the Task Force recommends the Board consider creating a separate Task Force to address this topic and consider doing so in conjunction with the custody of client assets.
15. The Task Force agreed that third bullet of proposed paragraph 290.165 should read: "A suitable individual should understand the objectives, nature and results of the services and the respective client and firm responsibilities," as opposed to "A suitable individual *would* understand..." This edit was based on a suggestion by the CAG.
16. Based on a comment from the CAG, the Task Force agreed to remove the phrase "executing an insignificant transaction..." from the guidance concerning administrative services. The language

could be misinterpreted to include transactions that may create unacceptable levels of threats to independence. The Task Force believed the guidance to state that the auditor may perform certain functions for the client under the client's instruction. Thus, the Task Force included "...submitting such (statutory) forms as instructed by the client..." in relations to the current guidance stating that an auditor may prepare statutory forms for client approval.

17. A CAG Representative also stated that administrative services could create threats to independence, where the extant guidance states that such services do not generally create threats. Thus, the Task Force added the following sentence to the guidance: "The significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level."

#### **Matters for Consideration**

3. IESBA members are asked:
- (a) Whether they support the conclusions of the Task Force above and provide feedback concerning the proposed edits to proposed paragraph 290.164;
  - (b) To provide feedback concerning the Task Force's recommendation to create a separate task force to study the possession of client assets and the maintenance of client records as the topics relate to independence; and
  - (c) Whether they support the conclusions and edits to the guidance pertaining to administrative services.

#### **D. Routine and Mechanical**

18. At the December 2013 meeting of the Board, there was a discussion concerning source documents and the automatic generation of invoices and documents of a client by an auditor as a result of permitted bookkeeping services and whether this would be considered to be creating source documents.
19. The Task Force agreed that source documents would usually be such that they are not generated automatically from a client's system based on bookkeeping services. For example, if an auditor records a sale that generates an invoice automatically via the journal entry, the source document of the transaction would be the purchase order as created by the audit client's customer. Thus, the Task Force agreed that extant paragraph 290.167 is clear when it states that a management responsibility for the preparation and fair presentation of the financial statements would include preparing or changing source documents "evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders)." Based on this analysis, the Task Force agreed that in paragraph 290.171, "preparing source documents" should be included as an example of a service that would not be considered routine or mechanical in nature.

#### **Matters for Consideration**

4. IESBA members are asked:
- (a) Whether they support the proposed edits of the Task Force noted on Agenda Item 2-E. Specifically, do the edits provide more clarity concerning activities that are routine or

mechanical?

- (b) To provide feedback considering the Task Force's conclusions that the extant language concerning source documents is clear and accurate.

**E. Conforming Changes to Section 291<sup>2</sup>**

- 20. As part of the mandate of the project proposal, the Task Force considered necessary conforming changes to Section 291 of the Code based on the proposed enhancements to Section 290. The proposed enhancements are presented in Agenda Item 2-H.

**Matter for Consideration**

- 5. IESBA members are asked to provide feedback concerning the proposed conforming changes to Section 291 as noted in Agenda Item 2-H.

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<sup>2</sup> Section 291, *Independence – Other Assurance Engagements*