

**Non-Assurance Services—Draft Explanatory Memorandum****Introduction**

This memorandum provides background to, and an explanation of, the proposed changes to the *Code of Ethics for Professional Accountants* (the Code) to clarify the non-assurance services provisions concerning management responsibilities and the phrase “routine or mechanical” as it pertains to the provision of accounting and bookkeeping services, and to delete the “emergency exception” provisions related to bookkeeping and taxation services. The International Ethics Standards Board for Accountants (IESBA) approved these proposed changes for exposure in April 2014.

The IESBA welcomes all comments on the proposed changes. In addition to general comments, the IESBA welcomes comments on the specific questions that are contained at the end of this memorandum.

**Background**

In the case of audit engagements, it is in the public interest and required by the Code that members of audit teams, firms and network firms remain independent in mind and appearance of audit clients. Adherence to independence allows the auditor to perform audits with integrity, objectivity and professional skepticism. During the course of an audit, firms have traditionally provided a range of non-assurance services that are consistent with their skills and expertise. The performance of such services may create threats to independence of the firm or members of the audit team, such as self-review, self-interest and advocacy threats. The Code provides guidance to professional accountants in public practice who perform non-assurance services for audit clients in the subsection *Provision of Non-assurance Services to an Audit Client* of the Code, paragraphs 290.156 to 290.219.

One of the overarching themes concerning independence in the performance of non-assurance services is that the auditor shall not assume a management responsibility. The Code states that client management must make the significant judgments and decisions pertaining to a service and must accept responsibility for the service. This principle extends to the guidance pertaining to all non-assurance services. For example, an audit firm may only provide bookkeeping services that are routine or mechanical to a non-public interest entity audit client when the self-review threat is at an acceptable level. The phrase “routine or mechanical” is used to identify those services that would not be considered to be a management function.

The guidance concerning bookkeeping services also contains a provision that permits the auditor to perform certain services not normally permitted by the Code in the case of an emergency under certain circumstances and subject to specific safeguards being implemented. This emergency provision also pertains to certain taxation services.

In September 2013, the IESBA approved a project proposal with the following objectives:

- Clarify the non-assurance provisions in the Code concerning management responsibilities;
- Clarify the phrase “routine or mechanical” as it pertains to the provisions of accounting and bookkeeping services; and
- Examine the “emergency exception” provisions related to bookkeeping and taxation services for appropriateness within the Code.

## **Significant Matters**

### **Emergency Exception**

The proposal removes the emergency exception provisions related to bookkeeping and taxation services. This determination was made considering several factors. The IESBA determined that 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. The IESBA determined that a local regulator should determine when it would be in the public interest for an auditor to perform certain non-assurance services prohibited by the Code. This removes any threat of misjudgment of the auditor as to when it is necessary to use the emergency exception, as there is potential for the terms “emergency” and “unusual situations” not to be interpreted consistently.

In those situations in which a regulator may approve of the performance of certain non-assurance services which are not normally permitted under the Code, the auditor would be required to implement the provisions of the Code addressing breaches, thus providing robust requirements in the event an emergency exception is permitted and further protecting the public interest.

### **Management Responsibilities**

The proposed changes to management responsibilities provide further guidance and clarification as to what constitutes a management responsibility. The extant Code requires the auditor to ensure client management has made the significant judgments and decisions pertaining to a non-assurance service and evaluating the results of the service. The proposal includes this same requirement; however, additional requirements are proposed to avoid the auditor assuming a management responsibility. The proposal in particular states that the auditor shall ensure that “client management makes all judgments and decisions...” which includes ensuring that the client’s management:

- Provides oversight of the service, and evaluates the adequacy and results of the services performed;
- Accepts responsibility for the actions to be taken arising from the results of the service; and
- Designates an individual, preferably within senior management, who possesses suitable skill, knowledge and experience to be responsible at all times for the client’s decisions and to oversee and acknowledge responsibility for the services. A suitable individual should understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services.

These additional requirements provide greater protection to the public against the threats to auditor independence and further clarify to a user of the Code the expectations of ensuring client management is accepting the proper responsibility of management for the performance of non-assurance services by an auditor.

The proposal contains other enhancements to the subsection “management responsibilities,” such as additional examples of management responsibilities and the reordering of certain sentences and paragraphs.

## **Administrative Services**

The extant Code addresses the performance of administrative services by an audit firm for an audit client within the “management responsibilities” subsection of the Code. Under the proposed edits, the guidance addressing administrative services is located in a separate subsection, to minimize the potential for administrative services to be confused with actual management responsibilities. Within the guidance, changes have been made to ensure clarity when addressing such routine and organizational services. For example, the phrase “executing an insignificant transaction” has been deleted to avoid confusion with any potential management responsibilities.

## **Preparing Accounting Records and Financial Statements**

The proposal clarifies the phrase “routine or mechanical” as used in the subsection “preparing accounting records and financial statements.” The clarifying changes include additional descriptive terms for “routine or mechanical,” additional examples of activities that are considered to be “routine or mechanical,” and the addition of examples of activities that are not considered to be “routine or mechanical.”

## **Effective Date**

The IESBA proposes that the effective date for the changes be [xx months] after approval of the final changes. The IESBA is of the view these enhancements to the Code would not require major changes to firms’ established procedures and therefore a relatively short transition period is appropriate.

## **Project Timetable**

Subject to comments received on exposure of the proposed changes, the IESBA intends to finalize the revisions to the Code in the last quarter of 2014.

## **Guide for Respondents**

The IESBA welcomes comments on all matters addressed in the Exposure Draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this Exposure Draft (especially those calling for change in current practice), it will be helpful for the IESBA to be made aware of this view.

## **Request for Specific Comments**

The IESBA would welcome views on the following questions:

1. Are there any situations that warrant retention of the emergency exceptions pertaining to bookkeeping and taxation services and, if so, why would it not be appropriate in such situations to rely on a regulatory override permitting the services?
2. Does the change from “significant decisions” to “decisions” when referring to management responsibilities (paragraph 290.162) have any negative ramifications that should be considered?
3. Are there any challenges understanding and applying the prerequisite set out in paragraph 290.165 for non-assurance services that should be considered?
4. Is there any reason why the prerequisite set out in paragraph 290.165 should not be applied to all non-assurance services, including general advice?

5. Does the proposed guidance on “routine or mechanical” clarify the term, or is additional guidance needed?
6. Is the meaning and identification of source documents sufficiently clear, taking into account documents that may be generated by software?
7. Does the potential impact on small- and medium-sized entities have implications that warrant further consideration?