

### NAS—Report-Back on November 2014 CAG Teleconference

Below are extracts from the draft minutes of the November 2014 CAG teleconference,<sup>1</sup> and an indication of how the Task Force has responded to CAG Representatives' comments

Matters Raised	Task Force Response
DELETION OF EMERGENCY EXCEPTION PROVISIONS	
The CAG supported the conclusions of the Task Force.	Support noted.
MANAGEMENT RESPONSIBILITIES – DELETION OF THE TERM “SIGNIFICANT”	
Ms. Elliott inquired as to how the Task Force responded to the comment by UK National Audit Office regarding the proposed edit to the provisions of the Code concerning temporary staff assignments. The comment suggested that the removal of the term “significant” from paragraph 290.162 may limit the circumstances in which loaned staff assignments would be permitted under paragraph 290.140 of the Code.	Mr. Hannaford noted that decisions concerning the acquisition, deployment and control of human, financial, technological, physical, technological and intangible resources as noted in paragraph 290.162 must be made by the client. Thus, loaned staff from a firm should not be in a position to make those decisions.
The CAG supported the conclusions of the Task Force.	Support noted.
MANAGEMENT RESPONSIBILITIES – EXAMPLES	
Ms. de Beer expressed support for the edits but was not opposed to the inclusion of the fifth bullet in paragraph 290.163, i.e., “Supervising activities for the purpose of management oversight” (which the Task Force had proposed to delete in light of the exposure draft responses).	Support noted. The Task Force and the Board agreed that the term “supervising” can have many meanings. Given that the term “generally” has been removed from the lead-in sentence, all examples must be definite management responsibilities. In order to enhance clarity, the Task Force agreed to continue to support the deletion of the fifth bullet.
Mr. Hansen noted that professional accountants struggle with bookkeeping services and inquired as to why there is not an example noting maintaining books and records as a management responsibility.	Mr. Hannaford noted that this list includes examples and is not intended to be exhaustive. Also, paragraphs 290.167 to 290.173 deal specifically with bookkeeping.
Mr. Hansen further questioned why the last bullet in	Point accepted.

<sup>1</sup> The draft minutes will be approved at the March 2015 IESBA CAG meeting.

Matters Raised	Task Force Response
<p>paragraph 290.163 (referring to designing, implementing or maintaining internal controls) should not also include “monitoring” as this is one of the elements of internal control under the COSO framework.</p> <p>Mr. Hannaford noted that the topic of monitoring internal controls is dealt with separately in the Code under the provisions addressing internal audit services. He further noted that the Task Force would consider the inclusion of the term “monitoring” within the bullet.</p>	<p>After further deliberation since the CAG meeting, the Task Force agreed to include the term “monitoring” within the example given that the bullet begins by stating “taking responsibility for...”</p>
<p>Mr. Koktvedgaard confirmed that bookkeeping is not listed as an example of a management responsibility because it is addressed later in the Code.</p>	<p>Mr. Hannaford agreed, noting that the specific guidance as to permitted bookkeeping services for non-PIEs is addressed in paragraphs 290.167 through 290.173. Mr. Hannaford further noted that inclusion of such an example may cause confusion.</p>
<p>Mr. Hansen disagreed stating that it is even more confusing that the example is not included.</p> <p>Mr. Hannaford indicated that the Task Force would examine the possibility of including such an example.</p>	<p>Point not accepted.</p> <p>Since the CAG meeting, the Task Force has further reflected on the matter and agreed that paragraph 290.167 explains management’s responsibility in reference to the books and records.</p>
<p>Mr. Fukushima expressed appreciation that the term “monitoring” would be reconsidered by the Task Force. He further questioned the basis for the proposed deletion of the term “supervising” from the list of examples. He felt that it would be appropriate to include this term in the list of management responsibilities, as day to day supervising involves judgment as it pertains to the operations of the client. Such activities may create threats to independence and undermine the objectivity of the auditor.</p>	<p>Point considered.</p> <p>Mr. Hannaford noted that there are some situations where supervising is a management responsibility and there may be other situations where it may not be as such. There are a plethora of examples to illustrate what may constitute the activity of “supervising.” However, the list of examples needed to be definite examples of management responsibilities since the term “generally” was removed from the lead-in sentence.</p>
<p>Mr. Greene expressed support for Mr. Hansen’s comments, noting that the examples should include bookkeeping and the preparation of financial statements, and that the term “monitoring” should also be included in the last bullet.</p>	<p>See responses to Mr. Hansen’s comments above.</p>
<p>Mr. Dalkin expressed support for Mr. Hansen’s</p>	<p>Point considered.</p>

Matters Raised	Task Force Response
<p>comments concerning “client books and records” on the grounds that basic concepts should be represented in the Code.</p>	<p>Mr. Hannaford noted the risk of including too many examples in that it could be interpreted to be an all-inclusive list.</p>
<p>Mr. Koltvedgaard invited each Representative’s views on the following matters:</p> <ul style="list-style-type: none"> <li>• The deletion of the term “supervising” from bullets 3 and 5 in paragraph 290.163;</li> <li>• Whether the term “bookkeeping” should be used in the examples of management responsibilities; and</li> <li>• Whether the term “monitoring” should be referenced in the last bullet concerning internal controls.</li> </ul> <p>Representatives commented as follows:</p> <ul style="list-style-type: none"> <li>• Ms. Elliott agreed with the deletion of “supervision”, adding “bookkeeping” as an example, and adding “monitoring” to the last bullet.</li> <li>• Mr. Michel noted that the basic responsibility of the accountant or the person in control is the ownership of the records.</li> <li>• Ms. Miller agreed with the deletion of the term “supervising,” addition of an example noting “bookkeeping,” and that the last bullet is acceptable without the term “monitoring.”</li> <li>• Ms. Robert expressed support for the removal of the term “generally” and the reinstatement of the first sentence of the paragraph. She further agreed with the inclusion of an example noting “bookkeeping” services but also was of the view that some other examples should be deleted, lest the list be seen as exhaustive.</li> <li>• Mr. Thompson agreed with the inclusion of examples noting “bookkeeping” services and the inclusion of “monitoring” of controls in the last bullet and adding a cross reference to the appropriate guidance in the Code for both</li> </ul>	<p>Points considered.</p> <p>Mr. Kwok clarified that the examples noted in 290.163 are examples of definite management responsibilities. Guidance in the Code does permit some bookkeeping services under certain circumstances.</p>

Matters Raised	Task Force Response
<p>bullets.</p> <ul style="list-style-type: none"> <li>Mr. Waldron agreed with Mr. Thompson and supported the removal of the term “generally.”</li> </ul>	
<p>Mr. Hansen clarified that the examples should include management’s responsibility to maintain the books and records of the entity. The intent of his comment was not to include a bullet that merely stated “bookkeeping.”</p> <p>Mr. Hannaford noted that the Task Force would consider these points further.</p>	<p>Point considered.</p> <p>Since the CAG meeting, the Task Force has agreed that paragraph 290.167 explains management’s responsibility in reference to the books and records.</p>
MANAGEMENT RESPONSIBILITIES – PREREQUISITES OF PARAGRAPH 290.165	
<p>Ms. de Beer strongly supported the proposed changes.</p>	<p>Support noted.</p>
<p>Mr. Hansen expressed strong support for the paragraph. He further requested an explanation of the reasoning for not requiring documentation of the process.</p> <p>Mr. Hannaford noted that although documentation is not required, this does not mean that it is not necessary for considerations made by the auditor. Requiring documentation in the Code requires judgment and the Task Force did not believe documentation was essential.</p>	<p>Point considered.</p> <p>Since the CAG meeting the Task Force reconsidered the topic. The Task Force agreed that paragraph 290.29 states that the “professional accountant shall document conclusions regarding compliance with independence requirements...” Thus, the Task Force continues to support not including a documentation requirement in paragraph 290.165.</p>
<p>Mr. Hansen inquired if other terminology was considered for the paragraph such as “shall determine” or “shall conclude” as opposed to “shall be satisfied.” Mr. Hansen suggested these two phrases may present stronger language.</p> <p>Mr. Hannaford noted the Task Force did not consider other language other than “shall be satisfied.” The use of the word “shall” does create a requirement rather than present an option for the professional accountant. Mr. Hannaford further stated that the Task Force would consider the suggested phrases.</p>	<p>Point not accepted.</p> <p>The Task Force agreed that the prerequisites in the paragraph will require the use of professional judgment in determining whether they have been accomplished. As such, the wording should remain as “shall be satisfied”, given that using the phrase “shall determine” or “shall require” would indicate an absolute affirmation which is challenging to ensure. Thus, the Task Force proposes that no change be made in that regard.</p>

Matters Raised	Task Force Response
MANAGEMENT RESPONSIBILITIES – ADMINISTRATIVE SERVICES	
Ms. de Beer agreed with the conclusions of the Task Force.	Support noted.
Mr. Koktvedgaard requested a tour de table to obtain views on the matter. The following Representatives also agreed with the Task Force's conclusions: Mss. Elliott, Miller and Robert, and Messrs. Dalkin, Greene, Hansen, Michel, Mr. Thompson and Waldron.	Support noted.
<p>Mr. Fukushima believed that the relocation of the guidance was a clarifying edit. However, he believed that the scope of the services that may be performed has expanded due to the statement that "Providing such services does not generally create a threat to independence." He further inquired if this expansion of permitted services would be outside of the scope of this project.</p> <p>Mr. Fukushima also noted that some of the services within the guidance, such as monitoring statutory filing dates, could create threats to independence, thus contradicting the sentence stating that threats generally are not created. Finally, he noted concern with the phrase "little to no professional judgment," as this phrase is subjective. He requested additional guidance by the Board for clarification.</p>	<p>Points considered.</p> <p>Mr. Hannaford noted that the Task Force was careful in ensuring that the examples included in the guidance were consistent with those in the extant Code. For example, the monitoring of statutory filing dates is already included in the Code.</p>
Mr. Greene further commented that the sentence stating that administrative services generally do not create a threat to independence may be misleading. The guidance states that administrative services are a NAS. Thus, threats may be created. Ms. Robert agreed.	Mr. Hannaford noted that the paragraph further states that if there is a threat, it must be eliminated or reduced to an acceptable level, which is consistent with the general framework. Mr. Hannaford noted, however, that the Task Force would consider the sentence.
ROUTINE OR MECHANICAL	
Mr. Koktvedgaard invited tour de table views on the proposed changes. The following CAG Representatives expressed support for the edits made: Mss. Elliott and Miller, and Messrs. Dalkin,	Support noted.

Matters Raised	Task Force Response
Greene, Hansen, Michel, and Waldron.	
<p>Mr. Fukushima disagreed with the proposed changes. Specifically, he felt that the preparation of the financial statements would include the use of judgment and thus should not be included as an example of a service that is routine or mechanical.</p> <p>Mr. Hansen also agreed that the preparation of financial statements is not routine or mechanical. He suggested consideration of modifying the example.</p>	<p>The Task Force considered these comments and noted that in the performance of NAS, professional judgment is required to varying degrees. Implementation of safeguards would be required if the threats to independence are not at an acceptable level.</p>
EFFECTIVE DATE, PUBLIC INTEREST & REPORT BACK	
<p>Mr. Koktvedgaard invited tour de table views on the following:</p> <ul style="list-style-type: none"> <li>• The proposed effective date.</li> <li>• Whether the proposed changes to the Code are in the public interest</li> <li>• Comments on the report-back on the March 2014 CAG discussion on the topic.</li> </ul> <p>Mss. Elliott, Miller and Robert, and Messrs. Dalkin, Fukushima, Greene, Hansen and Michel agreed with the effective date. Representatives had no further comments.</p>	<p>Support noted.</p>