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Meeting:	IESBA	# Agenda Item 6
Meeting Location:	Nashville, Tennessee	
Meeting Date:	June 17-19, 2019	

Non-assurance Services (NAS) [1]

I. Objective

1.   To consider the "first-read" draft of the NAS Task Force's proposed revisions to Section 600, including the subsections[2] and certain related conforming amendments.

> During the meeting, the Task Force Chair will:
>
> - Brief the Board on the changes that have been made to the key proposals since the March 2019 meeting.
>
> - Walk through the proposed revisions to Section 600 as set out in **Agenda Item 6A** and related conforming amendments to Section 400[3] in **Agenda Item 6B**.
>
> - Indicate matters that might warrant further consideration by the Task Force, including:
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>   o   Issues that will require consideration with the Fees Task Force or the International Auditing and Assurance Standards Board (IAASB).
>
>   o   Proposed consequential amendments that might be needed, including to Section 950[4] because of the proposed changes to Section 600.
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> Comments and all drafting suggestions on the proposed changes to Sections 600 and 400 are requested in advance of the Board meeting via email. Please email *SzilviaSramko@ethicsboard.org* and *dianejules@ethicsboard.org*.

II. Background

2.   The objective of the NAS project is to ensure that all the NAS provisions in the Code are robust and of high quality for global application, thereby increasing confidence in the independence of audit firms. The project scope encompasses the International Independence Standards related to the provision of NAS to audit clients. The IESBA approved the NAS Project Proposal in September 2018.

3.   The NAS project is responsive to concerns from regulatory stakeholders and the Public Interest Oversight Board (PIOB) and is a pre-commitment in the IESBA Strategy Work Plan 2019-2023

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[1]   NAS in this paper refers to the term "non-assurance services" as used in the Code. In some jurisdictions the term "non-audit services" is used in referring to matters similar to those being considered under this project. The terms "non-audit services" and "non-assurance services" are not defined terms in the Code.

[2]   Part 4A – Independence for Audits and Reviews, Section 600, *Provision of Non-assurance Services to an Audit Client*

[3]   Part 4A, Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

[4]   Exposure Draft: *Proposed Revisions to Part 4B to Reflect Terms and Concepts Used in ISAE 3000 (Revised)*, Proposed Section 950, *Provision of Non-assurance Services to Assurance Clients*

(SWP). The NAS Project Proposal was informed by various inputs, including:

- The [feedback](#) on a Briefing Paper, *Non-Assurance Services – Exploring Issues to Determine a Way Forward* which was discussed at [four IESBA global roundtables.](#)[5]

- Input from the IESBA Consultative Advisory Group (CAG), which also contributed to the determination of the scope of the NAS project.

- Benchmarking of the jurisdictional level NAS provisions, including Article 5 of the [EU Regulation](#)[6] and the non-audit rules of the US Securities and Exchange Commission ("SEC") and the Public Company Accounting Oversight Board ("PCAOB").

III. Activities Since Last IESBA Discussion

4. Since the March 2019 meeting, in addition to several email exchanges, the Task Force[7] has met in person and twice via teleconference to update their proposals and develop the proposed texts. In developing its proposals, the Task Force considered and was responsive to:

- The feedback from the March 2019 Board and CAG meetings;

- The April-May 2019 discussions with key stakeholders, including the International Forum of Independent Audit Regulators (IFIAR), IFAC Small Medium Practices Committee (SMPC), the Forum of Firms, and the IESBA National Standard Setter Liaison Group (NSS); and

- The *PIOB Public Interest Issues* communication in relation to the NAS project.

5. The Chair of the Task Force will present to the SMPC on June 12, 2019 via teleconference. During this call, the members of the SMPC will have the opportunity to provide input on the NAS agenda materials for the June 2019 IESBA meeting.

6. During the June 2019 discussion, the Chair of the Task Force will brief the Board on the significant comments received on the NAS project since the March 2019 Board meeting.

IV. Matters for IESBA Consideration in June 2019

7. In June 2019, the IESBA will consider how the Task Force's has incorporated the Board's input to the key policy decisions with respect to the NAS project since the March 2019 Board deliberations, including with respect to the following topics:

- Whether the Code should prohibit firms and network firms from providing NAS to audit clients that are public interest entities (PIEs) if the outcome of that service might be included directly or indirectly in the financial statements, and the service creates or might create a self-review

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[5] The NAS roundtables were held in Washington DC, USA (June 11, 2018); Paris, France (June 15, 2018); Tokyo, Japan (July 12, 2018) and Melbourne, Australia (July 16, 2018).

[6] See Regulation (EU) No 537/2014 of the European Parliament and of the Council on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.

[7] Task Force Members comprise:

- Richard Fleck, Chair and IESBA Deputy Chair
- David Clark, IESBA Technical Advisor
- Kim Gibson, IESBA Member
- Gary Hannaford, former IESBA Member (through December 2018)
- Jens Poll, IESBA Member

threat; and, if so, how the Code might explain the concept of an "indirect" impact on the financial statements.

- Whether the Code should maintain a distinction in the NAS provisions for audit clients that are PIEs and audit clients that are not PIEs.

- Whether the Code should explicitly address communication with those charged with governance (TCWG) about NAS matters, including, for PIEs, a requirement for firms and network firms to obtain pre-approval of the NAS from TCWG.

- Whether the Code should establish a particular threshold for NAS fees vs. audit fees that would require firms and network firms to re-evaluate threats to independence.

- Whether and, if so, how and under what circumstances there should be enhanced transparency by firms regarding the ratio of NAS fees and audit fees to: (i) TCWG; and (ii) the public (the IESBA noted the need for coordination with the Fees Task Force on this particular matter).

Areas of Focus

8.   The notes in the gray boxes in **Agenda Item 6A** and **6B** summarize the Task Force's rationale for changes that were made based on the Board's input. During the June Board meeting, the Board will be asked to:

- Comment on the drafting of the proposed revisions to the general provisions in Section 600, including with respect to:

  o   The new proposed requirement and related application material that prohibit firms from providing NAS to audit clients when those NAS might create self-review threats;

  o   The proposed new requirement and related application material relating to communication with TCWG, including pre-approval of NAS.

- Consider and provide input on the proposed revisions to subsections 601 to 610. In addition to the clarifications and substantive revisions to the subsections, Board members will be asked:

  o   Whether they agree with how the material in the subsections have been reordered.[8] The Task Force believes that the proposed new ordering emphasizes the specific description of each type of NAS.

  o   Whether they support the clarifications that have been made to subsection 604 relating to tax. In this regard, the Board is asked to note that the Task Force consulted with Mr. Peter Hughes (former IESBA and Structure Task Force Member) in in developing its proposed revisions relating to tax.

Comments that Did Not Result in Changes to Proposed Text

9.   Appendix 1 is a summary of some comments that have been raised during the Task Force's deliberations or in finalizing the agenda material for this meeting. It was determined that these

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8   Within each subsection, the material will be organized with subheadings to include: an introduction; a description of the service; a discussion about the potential threat arising from the provision of the service; provisions that apply to all audit clients; and as applicable additional provisions that apply to non-PIEs and to PIEs.

comments should be brought to the Board's attention but did not warrant a change to the proposed text.

Proposals that Require Input/ Coordination with Others

10.   The Task Force continues to work closely with the Fees Task Force to develop proposals that will enhance transparency about NAS fees, including in relation to the ratio of audit and services other than audit fees. This proposal forms part of the revisions that will be presented by the Fees Task Force in **Agenda Item 3-A**.

11.   The Task Force's current thinking is aligned to the approach being taken by the Fees Task Force. Following the Board's June 2019 meeting, the Task Force will work closely with the Fees Task Force to update its NAS fee-related proposals.

V.   Next Steps

12.   The Summary Illustrative IESBA Work Plan in the SWP anticipates the IESBA's approval of a NAS Exposure Draft in 2019 and a final pronouncement by 2021. The Task Force continues to accelerate its efforts with a view towards approval of the NAS ED by September 2019. However, it is anticipated that additional time may be needed to refine certain issues (e.g., those matters require coordination with other Task Forces or the IAASB).

13.   Having regard for the decisions reached during the June 2019 meeting, the Task Force Chair will signal any revisions to the planned timeline for the NAS project.

Materials Presented

For IESBA Discussion

Agenda Item 6A   NAS Proposed Text, Revisions to Section 600, including Subsections (Mark-up from extant)

Agenda Item 6B   NAS Proposed Conforming Amendments to Section 400 (Mark-up from extant)

For IESBA Reference Only

Agenda Item 6C   NAS Proposed Text – Revisions to Section 600 and Conforming Amendments to Section 400 (Clean)

Agenda Item 6D   Other NAS Proposed Conforming Amendments, including to Section 950 (Marked from extant)

Links Only

•   Approved NAS Project Proposal

•   March 2019 IESBA Agenda Item 7, *NAS Cover Note*

•   March 2019 IESBA Agenda Item 7-A, *NAS Draft of Proposed Revisions and Notes*

Appendix 1

Comments that Did Not Result in Changes to Proposed Text

	Comment	Task Force Response
1.	Some IESBA members suggested that the Task Force should consider including a description of non-assurance services in the Code.	After careful consideration, the Task Force determined that a description for non-assurance services is not warranted. The Task Force notes that the Code includes a description of "Assurance Engagement" and is of the view that any engagements that are not assurance engagements are in fact non-assurance engagements.
2.	Some IESBA members suggested that the Task Force's proposals should include specific guidance to assist firms operationalize them in a group audit context (e.g. required auditor communications with TCWG). This comment is also relevant to the Fees project.	The Task Force notes that: • There are broader issues (beyond the scope of the NAS project) that warrant further consideration with respect to applying the provisions in the Code in a group audit context. • The IAASB's ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)* includes provisions that apply in a group audit context, including with respect to compliance with ethics and independence and communication with TCWG. • The IAASB's is currently undertaking a [project to revise ISA 600](#). It is anticipated that the IAASB might soon approach the IESBA to coordinate topics of mutual interest with respect to the Group Audit as part of its IAASB-IESBA coordination initiatives. The Task Force will revisit this comment after the June 2019 Board discussion.
3.	The Task Force's proposed requirement relating to auditor communication to TCWG in paragraph R600.20 of **Agenda Item 6-A** applies to audit clients that are PIEs. Questions have been raised about whether those provisions should instead apply to listed entities (i.e., the	In the context of its Safeguards project, the IESBA had extensive deliberations, including with its Consultative Advisory Group about whether auditor communication about NAS matters (e.g., pre-approval of NAS) should apply to listed audit clients versus audit clients that are PIEs. It was determined that the

	Comment	Task Force Response
	existing approach in the IAASB's auditor communication requirements about independence matters in ISA 260 (Revised). This comment is also relevant to the Fees project.	requirement should apply to PIEs. This approach was: • Reiterated in the context of the IESBA's consideration of the June 2018 Fees Final Report; and • Supported by participants in the IESBA's 2018 Global Roundtables. At the June 2019 IESBA meeting, the Chair of the Fees Task Force will brief the Board on the outcome of an initial meeting of a newly established Joint Working Group which comprise IESBA and IAASB representatives. It is anticipated that this issue will be included in his briefing.