Compilation of Comments to ET/GA ED – Question 6

Note to IESBA Meeting Participants

This reference document includes the compilation of the comments from the 49 comment letters submitted in response to the following **Question 6** of Exposure Draft, *Proposed Revisions to the Code Relating to the Definition of Engagement Team and Group Audits* (ED):

"Non-Assurance Services

Is the proposed application material relating to a non-network CA firm's provision of NAS to a component audit client in proposed paragraph 405.12 A1 – 405.12 A2 sufficiently clear and appropriate?"

For the analysis of all significant comments and the Task Force's responses, please refer to Agenda Items 5-A and 5-B.

Regulators and Oversight Authorities, Including MG members

1. Botswana Accountancy Oversight Authority (BAOA)

We agree with the proposed changes because the main risk being self-review threat is sufficiently explained. In addition, the explanation includes examples of what may result in a self-review threat.

2. Committee of European Auditing Oversight Bodies (CEAOB)

Self-review threat that might be created by the provision of non-assurance services (NAS) by a component auditor firm outside the network

Paragraphs 405.12 A1 and 405.12 A2 provide relevant context with respect to self-review threats that might be created by a non-network component auditor firm providing non-assurance services. It is currently unclear whether these paragraphs relate to the Public Interest entities (PIEs) and/or non-public interest entities (non-PIEs). We suggest clarifying whether the provisions in paragraphs 405.12 A1 and 405.12 A2 relate to PIEs and/or non-PIEs.

We also suggest clarifying in paragraphs 405.12 A1 and 405.12 A2, that those paragraphs only deal with component auditor firms outside the network, in addition to the header and the explanatory memorandum.

In addition, with respect to paragraphs 405.12 A1 and 405.12 A2, we suggest to assess whether the distinction in requirements for component auditor firms within and outside the network could cause unintended consequences.

3. International Forum of Independent Audit Regulators (IFIAR)

Possible Unintended Consequences

Paragraph 405.12 A2 of the Code provides relevant context with respect to self-review threats that might be created by a non-network component auditor firm providing non-assurance services. It is currently unclear whether this paragraph relates to Public Interest entities (PIEs) and/or non-public interest entities (non-PIEs). We suggest clarifying the kind of entities to which the provisions in paragraphs 405.12 A2 of the Code are to be applied.

We also suggest clarifying whether the paragraphs 405.12 A1 and 405.12 A2 of the Code, only deal with component auditor firms outside the network, in addition to the header and the explanatory memorandum.

In addition, with respect to paragraphs 405.12 A1 and 405.12 A2 of the Code, we suggest an assessment of whether the distinction in requirements for component auditor firms within and outside the network could cause unintended consequences.

4. International Organization of Securities Commissions (IOSCO)

5. Independent Regulatory Board for Auditors (South Africa) (IRBA)

The IRBA agrees that the application material is appropriate but considers it not to be sufficiently clear. With respect to evaluating threats resulting from non-assurance services, paragraphs 405.12 A1 and A2 provide the relevant context. We would still suggest that the IESBA clarifies that a component auditor should not only consider the threat in terms of the services provided by the component auditor's firm in relation to the accounting parts that are subject to the component auditor's non-assurance services. Rather, the overall significance of the financial statement line item in the overall financial statements at group level should be a consideration as well.

Further, the application material may benefit from adding the following: "*There might be circumstances in which the group auditor firm requests the component auditor firm to perform non-assurance services on specific items, transactions, or balances in the component audit client's financial information. A self-review threat might be created by the component auditor firm's provision of a non-assurance service on that specific item, transactions, or balance in the financial information*."

6. National Association of State Boards of Accountancy (US) (NASBA)

NASBA believes that the proposed application material is sufficiently clear and appropriate in the instance where the group audit client is a PIE and a non-network CA firm provides non-assurance services (NAS) to the component audit client even if the component audit client is a non-PIE.

7. United Kingdom Financial Reporting Council (UK FRC)

The FRC considers the proposed application material to be reasonable and supports the clarification around the provision of non-audit services (NAS) and independence considerations from a group audit perspective. We welcome the inclusion of guidance and consider it appropriate that requirements around independence for the Component Auditor are linked to whether the group entity is a PIE or not.

In particular, we support the guidance on avoidance of the self-review threat after the provision of NAS to the component. The application guidance could be further clarified by inviting the Component Auditor to consider the importance at the overall group level of the specific financial statement line item on which they have been invited to perform group procedures. It may be that the self-review risk could be seen differently when viewed from the perspective of the overall group rather than from the perspective of the client. The guidance could also be strengthened by encouraging the Component Auditor to consult with the Group Engagement Partner on these matters.

Public Sector Organizations

8. United States Government Accountability Office (GAO)

We believe that paragraph 405.12 A1 is sufficiently clear, but the examples appear to be requirements rather than application materials. We suggest changing the paragraph to reflect more clearly that the examples are of prohibited activities for component auditor firms when the group audit client is a public-interest entity. We believe that paragraph 405.12 A2 is sufficiently clear and appropriate.

Independent National Standard Setters

9. Accounting Professional & Ethical Standards Board Australia (APESB)

APESB questions whether the examples in paragraph 400.12 A1 are required. A better approach would be to delete the two examples and retain the general reference to Section 600, as many non-assurance services could create a threat to the component auditor's independence.

With respect to paragraph 405.12 A2, APESB encourages the IESBA to consider including a taxation services example as we are of the view it would be a typical non-assurance service that is provided which is likely to create a self-review threat.

Recommendation

- Consider the simplification of terms and language used in the revised provisions in Section 405 to enhance the ability of readers to easily understand, comprehend and interpret the provisions (refer to issues raised in Questions 1, 3, 4, 6, 7 and 8 in Appendix A)

10. New Zealand Auditing & Assurance Standard Board (NZAuASB)

No, the NZAuASB does not consider that the proposed application material is sufficiently clear.

405.12 A2 proposes application material for the evaluation of the self-review threat when a limited scope engagement is performed. The example provided to illustrate the concept is audit work limited to a specific line item such as inventory. The example states:

" the evaluation of the self-review threat would include non-assurance services that form part of or affect the accounting records or the financial information **related to the accounting for, or the internal controls over, inventory**."

When a firm is engaged to perform a limited scope audit over inventory, we consider the guidance is clear that if the non-assurance service related to internal controls over inventory, a self-review threat might be created. However, if the non-assurance engagement related to internal controls over creditors, it is not clear cut how this scenario might be captured by the words "related to the accounting for, or internal controls over inventory".

We consider it is unclear whether the intent of the words "related to the accounting for, or the internal controls over inventory" extends to other line items in the financial statements that the inventory balance may impact on, such as creditors and cost of goods sold or if it strictly the inventory line item of the financial statements. We consider that additional clarification to explain what the words "related to the accounting for" means would be helpful.

In this regard, including case study type scenarios in more detailed non-authoritative material would be helpful.

Professional Accountancy Organizations

11. Joint Submission -- Association of Chartered Certified Accountants/Chartered Accountants Australia and New Zealand (ACCA CAANZ)

Yes, the proposed application material is sufficiently clear.

12. Accountancy Europe (AE)

13. American Institute of Certified Public Accountants' Professional Ethics Executive Committee (AICPA PEEC)

PEEC recommends IESBA consider allowing a scalable approach that takes into consideration professional judgment and the conceptual framework for evaluating non-assurance services as the current approach in the proposal could make it challenging to find a firm that can act as a component auditor because of the services they may provide (or have provided) to the group audit client.

PEEC believes application would be enhanced if additional examples were added beyond just the self-review example currently included in 405.12 A2. If examples are not added to demonstrate how other threats may be created, PEEC recommends moving the example in 405.12 A2 to a "frequently asked question".

14. Botswana Institute of Chartered Accountants (BICA)

The proposed application material in paragraph 405.12 A1 – 405.12 A2 is sufficiently clear and appropriate especially because the guidance includes some illustrations of this principle in a NAS context, which makes it even easier to understand.

15. Chartered Accountants Ireland (CAI)

Section R600.14 states that "Before providing a non-assurance service to an audit client, a firm or a network firm shall determine whether the provision of that service **might create** a self-review threat by evaluating whether **there is a risk** that:

(a) The results of the service will **form part of or affect** the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion; **and**

(b) In the course of the audit of those financial statements on which the firm will express an opinion, the audit team will **evaluate or rely** on any judgments made or activities performed by the firm or network firm when providing the service."

Section R600.16 states that "A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity if the provision of that service might create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion"

In our view, the application guidance in sections 405.12 A1 and 405.12 A2 Non-Assurance Services is not clear on how the requirements in sections R600.14 and R600.16 apply to the component auditor when the group audit client is a PIE.

The application guidance covers advocacy threat and design and implementation considerations but does not consider the advice and recommendation type services discussed in R600.17.

16. CPA Australia (CPAA)

While on the face of it paragraphs 405.12 A1 and 405.12 A2 appear to be appropriate, it is not clear whether these paragraphs consider different non-assurance services requirements in different jurisdictions, where component audit clients operate across different jurisdictions.

That is, to claim compliance with the International Code of Ethics (the "Code"), a jurisdiction may have requirements that are more stringent than the Code. Therefore, it may be prudent to include wording that clarifies that, in some circumstances, a component auditor may need to comply with requirements that are more stringent than the requirements imposed on the group auditor. Moreover, the component auditor should be cognisant of situations where the group auditor requirements are more stringent, and hence the component auditor may need to comply with more stringent requirements than those that apply in their own jurisdiction when performing work on a group audit.

Feedback from our members is that the two examples provided in paragraphs 405.12 A! and A2 are not particularly helpful and focus on two quite specific independence threats. Consideration might be given to expanding this section of the proposed revisions to include further examples or removing these two paragraphs.

17. Chartered Professional Accountants of Canada Public Trust Committee (CPAC)

The PTC believes that proposed paragraph 405.12 A1 – 405.12 A2 is not sufficiently clear with respect to proposed paragraph R405.10. Specifically, proposed paragraph R405.10 would require that when the group audit client is a PIE, a non-network component auditor firm be independent of the component audit client in accordance with the requirements applicable to audit clients that are PIEs in this Part.

However, it is not clear if non-network component auditor firms would be required to comply with requirements that apply to "All audit clients" in Section 600. For example, R604.8 (tax planning/advisory service) and R605.4 (internal audit service) apply to all audit clients.

We recommend that the IESBA considers expanding the proposed introduction paragraph 405.1 to explain the application of the group audit requirements, beginning with all audit requirements and then adding either PIE or non-PIE requirements.

18. Compagnie Nationale des Commissaires aux Comptes (CNCC)

We disagree with paragraph 405. 12 Al since we disagree with the requirement of paragraph 405.10 to apply PIE independent rules to the component auditor of a non-PIE component of a PIE group.

We agree with paragraph 405.12 A2.

19. European Federation of Accountants and Auditors for SMEs (EFAA)

Yes.

20. Federación Argentina de Consejos Profesionales de Ciencias Económicas (FACPCE)

The material is clear and appropriate.

21. Hong Kong Institute of Certified Public Accountants (HKICPA)

As set out in our responses to Question 4, we have concerns on the proposed independence principles for non-network CA firms when the group audit client is a PIE while the component audit client is not itself a PIE.

We nevertheless consider proposed paragraphs 405.12 A1 and A2 are clear and appropriate for their intended purposes.

22. Instituto dos Auditores Independentes do Brasil (Ibracon)

We agree with the proposed application material relating to this question. However, we understand that presenting illustrative examples in the proposed material could provide a better understanding of as well as clarify its application.

23. Institute of Chartered Accountants of Scotland (ICAS)

Yes – we agree the proposed application material relating to a non-network CA firm's provision of NAS to a component audit client in proposed paragraph 405.12 A1 – 405.12 A2 is sufficiently clear and appropriate.

24. Institute of Chartered Accountants in England and Wales (ICAEW)

Yes.

25. Institute of Certified Public Accountants of Uganda (ICPAU)

We believe that the proposed application material relating to a non- network component auditor firm's provision of non- assurance services to a component audit client is sufficiently clear and appropriate.

26. Institut der Wirtschaftsprüfer (Germany) (IDW)

It would be helpful to highlight the authority of passages that constitute negative requirements in 405.12.A2 and the first sentence of 405.18 A1.

27. Institute of Singapore Chartered Accountants (ISCA)

28. Japanese Institute of Certified Public Accountants (JICPA)

We have no objection to the proposed application material relating to a non-network component auditor firm's provision of non-assurance service to a component audit client in proposed paragraph 405.12 A1, except for the following.

Paragraphs 405.12 A1 and A2 state that the application of paragraph R405.10 requires a component auditor firm to apply the independence requirements for non-assurance service for public interest entities to the component audit client that is not a public interest entity where the group audit client is a public interest entity when ISA 600 (Revised) is applied by the component auditor firm. In addition to that, the communication with those charged with governance regarding the provision of non-assurance services should be explicitly stated.

29. Korean Institute of Certified Public Accountants (KICPA)

We believe that the proposed application material provides appropriate examples and guidance to help understand the independence principles relating to CA's provision of NAS.

30. Malaysian Institute of Accountants (MIA)

Applicability of proposed paragraphs 405.12 A1 – A2

The proposed application material relating to a non-network component auditor firm's provision of NAS to a component audit client in proposed paragraph 405.12 A1 – 405.12 A2 is appropriate when the component auditor firm outside the group auditor firm's network is not engaged by the component audit client for statutory, regulatory, or other reasons. However, in many jurisdictions, it is rather common for the component auditors to be engaged for statutory audit and other regulatory filings.

The prohibitions on performing certain non-assurance services for a non-PIE audit client that is part of a non-audit client PIE group may result in the unintended consequence of reducing the pool of auditors willing to engage with a group auditor firm that is outside of the component auditor firm's network. This will force the group auditor to obtain sufficient appropriate audit evidence to support the group audit opinion through other means, resulting in increased costs for the group.

Hence, we would urge the IESBA to consider the impacts as set out in our suggestions in the preceding paragraphs on the "Scalability of Requirement For a PIE/Non-PIE Engagement".

The group auditor firm develops the group audit plan and determines the work to be performed by the component auditor at component level. The requirement should be proportionate to the self-review threat that is being addressed. With further refinement, we believe 405.12 A2 of the ED can really bring out this important principle.

Clarity of proposed paragraphs 405.12 A1 – A2

Proposed paragraphs 405.12 A1-A2 are not sufficiently clear in outlining that the requirements of Section 600 are applied from the perspective of the component audit client and not the group audit client. The perspective that the requirements are applied from will result in inconsistent applications of the prohibitions and should therefore be further clarified.

We support the inclusion of examples, in the IESBA Code to illustrate the requirements and related application material. Although labelled as examples, the information contained in paragraph 405.12 A1 is a repeat of the requirements and therefore does not achieve the desired effect of illustrating the requirements. Furthermore, the inclusion of these two requirements creates the impression that these are the only two prohibitions that apply and not all those contained in Section 600 of the IESBA Code.

We would suggest that the examples be removed from proposed paragraph 405.12 A1 and that it will be more useful in this case for the IESBA to develop further non-authoritative materials depicting various Group structures (and business lines) while illustrating the application of R405.9 and R405.10 to the related entities from the perspective of the component auditor firm outside of the group auditor firm's network.

Transitional arrangements

In finalising the proposed revisions, we suggest that the IESBA include transitional arrangements to address non-assurance services currently being provided by component auditors that may become prohibited under the revised requirements.

31. Royal Nederlandse Beroepsorganisatie van Accountants (NBA)

The application material is not clear enough to us. More elaboration is required in respect of 405.12 A2 examples. In specific more clarification should be provided in respect of performing / delivering accounting services (such as payroll administration services, compilation of financial statements, compilation on tax return (corporate tax) and VAT). In our view these should be allowed. It should be more clear if this is, or other services are, permissible and under which circumstances.

32. New York State Society of CPAs (NYSSCPA)

33. South African Institute of Chartered Accountants (SAICA)

Paragraph 405.12.A2 should be moved to the section, "*All group Audit clients*" directly below R405.6. The element relating to the example in this paragraph i.e. "*For example, if the component auditor firm's audit*

work is limited to a specific item such as inventory, the evaluation of the self-review threat would include non-assurance services that form part of or affect the accounting records or the financial information related to the accounting for, or the internal controls over, inventory," should be left in the Application material.

With the exception of the above change, SAICA is in agreement with the proposed application material relating to a non-network component auditor firm's provision of Non-Assurance services to a component audit client.

34. South African Institute of Professional Accountants (SAIPA)

405.12 States: Section 600 requires a firm to evaluate whether non-assurance services provided to an audit client create threats to independence. The application of paragraph R405.10 requires a component auditor firm to apply the independence requirements for non-assurance services for public interest entities to the component audit client where the group audit client is a public interest entity. For example, where the group audit client is a public interest entity, the component auditor firm is prohibited from acting in an advocacy role for a component audit client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court, regardless of whether the amounts involved are material to the financial information of the component audit client. Similarly, the component auditor firm's design and implementation of the component audit client's information technology system that generates the financial information on which the component auditor firm will perform audit work creates a self-review threat and is therefore prohibited if the group audit client is a public interest entity.

The financial information on which a component auditor firm performs audit work is relevant to the evaluation of the self-review threat that might be created by the component auditor firm's provision of a non-assurance service. For example, if the component auditor firm's audit work is limited to a specific item such as inventory, the evaluation of the self-review threat would include non-assurance services that form part of or affect the accounting records or the financial information related to the accounting for, or the internal controls over, inventory.

We believe that the proposed application material relating to a non-network CA firm's provision of NAS to a component audit client in proposed paragraph 405.12 A1 – 405.12 A2 is sufficiently clear and appropriate.

35. The Society of Certified Accountants and Auditors of Kosovo (SCAAK)

Yes.

36. Federation of Accounting Professions, Thailand (TFAC)

Yes, it's clear and appropriate.

37. Wirtschaftsprüferkammer (Germany) (WPK)

We agree with the proposed application material relating to a non-network CA firm's provision of NAS to a component audit client in proposed paragraph 405.12 A1 – 405.12 A2.

Firms

38. Association of Italian Audit Firms (ASSIREVI)

Section 600 requires a firm to evaluate whether non-assurance services provided to an audit client create threats to independence. The application of paragraph R405.10 requires a component auditor firm to apply the independence requirements for non-assurance services for public interest entities to the component audit client where the group audit client is a public interest entity.

We believe that application of paragraph R405.10 should clarify if the requirement for a component auditor firm to apply the independence requirements for non-assurance services for public interest entities to the component audit client extends also to the related entities of the component audit client. We believe that, consistent with paragraph R600.10 of the Code in force and the examples reported in paragraph 405.12 A1, 405.12 A2, this clarification should state that the new requirements do not imply that the component

auditor firm outside the group auditor firm's network should be independent from the related entities of the group audit client or of the component audit client.

39. BDO International Limited (BDO)

Applicability of proposed paragraphs 405.12 A1 – A2

The proposed requirement contained in paragraph 405.12 A1 for the component auditor to apply the independence requirements for NAS for PIEs to the component audit client where the group audit entity is a PIE may result in the unintended consequence of increasing market concentration of auditors in reducing the pool of auditors willing to engage with a group auditor firm that is outside of the component auditor firm's network. This could force the group auditor to directly obtain sufficient appropriate audit evidence to support the group audit opinion without engaging with a component auditor firm, resulting in the potential loss of vitally important component auditor knowledge and expertise at the component entity, as well as increased inefficiencies and costs.

The group auditor firm develops the group audit plan and determines the work to be performed by the component auditor at component level. The requirement should be proportionate to the self-review threat that is being addressed.

To this end, BDO recommends that the IESBA consider a proportionate approach to the prohibition on component auditor firms outside of the group auditor firm's network contained in R405.9 -10 by including consideration of:

(a) the materiality of the component audit client to the group audit client, and
(b) the level of influence that the component auditor firm can exert on the group audit opinion.

Clarity of proposed paragraphs 405.12 A1 – A2

Proposed paragraphs 405.12 A1- A2 are not sufficiently clear in outlining that the requirements of Section 600 are applied from the perspective of the component audit client and not the group audit client. The perspective that the requirements are applied from will result in inconsistent applications of the prohibitions and should therefore be clarified.

BDO supports the inclusion of examples in the IESBA Code to illustrate the requirements and related application material. Although labelled as examples, the information contained in paragraph 405.12 A1 is a repeat of the requirements and therefore does not achieve the desired effect of illustrating the requirements. Furthermore, the inclusion of these two requirements creates the impression that these are the only two prohibitions that apply and not all those contained in Section 600 of the IESBA Code.

To this end, BDO suggests that the examples be removed from proposed paragraph 405.12 A1 and that it will be more useful in this case for the IESBA to develop practical guidance, including Group structures illustrating the application of R405.9 and R405.10 to the related entities from the perspective of the component auditor firm outside of the group auditor firm's network. It will be useful for these examples to illustrate group audit clients that operate international, resulting in different local rules being applicable in the different jurisdictions and their interaction with the requirements contained in the IESBA Code.

Transitional arrangements

In finalising the proposed revisions, BDO suggests that the IESBA include transitional arrangements to address non-assurance services currently being provided by component auditors that may become prohibited under the revised requirements.

40. Deloitte Touche Tohmatsu Limited (DTTL)

While Deloitte Global is in agreement with the content of the two paragraphs on non-assurance services, we question whether the specific examples are better suited for non-authoritative guidance such as "frequently asked questions" or similar.

41. Grant Thornton International Ltd (GTIL)

GTIL believes the proposed application material relating to a non-network component audit firm's provision of NAS to a component audit client in proposed paragraph 405.12 A1 – 405.12 A2 is clear and appropriate.

However, we believe the IESBA could provide more guidance and application material in situations where a non-network component audit firm provides/provided NAS to the group audit client to ensure consistent application of the rules.

In accordance with section R400.20 of the Code, unless a client is a listed entity, reference to audit client will only include related entities over which the client has direct or indirect control, excluding the group audit client as a related entity of the component. If the non-network component firm were to provide or has provided a prohibited NAS to the group audit client, it would not be prohibited under section R400.20 of the Code because the group audit client would not be a related entity of a non-listed component entity.

Alternatively, if the non-network component auditor is expected to apply the requirements in section 600 on NAS of the Code to the group audit client, would the exception in Section 600.10, *Consideration for Certain Related Entities,* be applicable in these situations because the non-network component firm's audit client is the component entity and not the group entity? If applicable, then providing prohibited NAS to an entity that has direct or indirect control over the component audit client (the group audit) would be permissible under section R600.10 (a).

Accordingly, we believe it would be beneficial for the IESBA to provide guidance for non-audit services performed for the group audit client by a component audit firm so that there is consistent application of the Code in these situations, which we feel is in the public interest.

42. Ernst & Young Global Limited (EY)

Yes, we believe the application material in proposed paragraphs 405.12 A1 through 405.12 A2 is sufficiently clear and appropriate.

43. KPMG IFRG Limited (KPMG)

We agree with the application material and for clarity, we propose adding the word "solely" before "include non-assurance services that form part of or affect the accounting records…" in paragraph 405.12 A2.

44. Mazars Group (MAZARS)

45. MNP LLP (MNP)

46. PKF International Limited (PKF)

In our view, the proposed application material relating to a non-network CA firm's provision of NAS to a component audit client in proposed paragraph 405.12 A1 – 405.13 A2 is sufficiently clear and appropriate.

47. Pitcher Partners (PP)

The guidance is problematic, particularly where the component auditor is a non-network firm, the group auditor has the absolute power to determine that a service is prohibited, without any recourse for the component firm, potentially providing the ability for a group auditor to deny a component auditor legitimate work, which may again be seen as a deterrent to having a non-network auditor, a potential unintended consequence.

48. PricewaterhouseCoopers International Limited (PWC)

Yes. We support the proposal that when the group audit client is a PIE, the independence requirements for NAS provided by a non-network component auditor firm to the component audit client are those applicable for PIEs even if the component audit client is a non-PIE.

Others

49. IFAC Small and Medium Practices Advisory Group (IFAC SMPAG)

The SMPAG believes that the proposed sentence in paragraph 405.12 A2 that states, “the financial information on which a component auditor firm performs audit work is relevant to the evaluation of the self-review threat that might be created by the component auditor firm’s provision of a non-assurance service” should be elevated to a requirement rather than in the application material, and then perhaps keep the example in the second sentence in the application material.