PROJECT PROPOSAL—NON-ASSURANCE SERVICES

I.   Subject

1.   The non-assurance services (NAS[1]) provisions in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code), in particular, Section 600.[2]

II.   Background and Relevant Developments

RECENT REVISIONS TO THE CODE

2.   Responsive to concerns raised by stakeholders, in particular by some regulators, in January 2015 the IESBA approved a project with the aim of improving the clarity, appropriateness and effectiveness of the safeguards in the Code. The focus of this project was on enhancing safeguards in the Code and how they apply to the NAS provisions in the Code. In April 2018, the IESBA released the Code which is completely rewritten using a new structure and drafting convention.[3]

3.   The Code includes substantive revisions to the conceptual framework. Those revisions include new and revised requirements as well as a number of clarifications to key concepts and terms (e.g. safeguards, acceptable level, reasonable and informed third party), thereby making the conceptual framework more robust. For example, the conceptual framework emphasizes the importance of understanding facts and circumstances and changes in information, exercising professional judgment and using the concept of a reasonable and informed third party in identifying, evaluating and addressing threats.

4.   With respect to NAS, the Code:

- Better explains how firms and network firms should apply the conceptual framework to identify, evaluate and address threats to independence created by providing NAS to audit clients.

- Clarifies the examples of actions that might be safeguards to address threats created by providing a NAS to an audit client.

- Refines the safeguards in the NAS provisions in light of the enhanced description of safeguards and better aligns the examples of safeguards to specific types of threat.

ESTABLISHMENT OF NAS WORKING GROUP

5.   The Safeguards project was finalized in conjunction with the Structure of the Code project in December 2017. At that time, the IESBA established a new NAS Working Group (WG) to explore the

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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 initiative. For example, the term "non-audit services" is used in the UK to cover any service that does not form part of the audit engagement (i.e., both "non-assurance" and "assurance services" other than an audit).The terms "non-audit services" and "non-assurance services" are not defined terms in the Code.

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

[3]   The IESBA approved the final structure and drafting conventions for the Code as part of the restructured Code in December 2017 (see Basis for Conclusions for the Structure of the Code project).

broad issues relating to NAS, in particular those relating to permissibility that were raised by regulatory respondents to the Safeguards Exposure Draft and the Public Interest Oversight Board (PIOB).

GLOBAL ROUNDTABLES

6.   To provide a multi-stakeholder forum to explore how best to address the issues the WG has identified, the IESBA hosted a series of global roundtables in Washington, DC, U.S.A. (June 11, 2018); Paris, France (June 15, 2018); Tokyo, Japan (July 12, 2018); and Melbourne, Australia (July 16, 2018).

7.   The NAS provisions in the Code, the issues identified by the WG, and questions for roundtable participants were summarized in a May 2018 Briefing Note, *Non-assurance Services – Exploring Issues to Determine a Way Forward*.

8.   About 150 senior-level delegates participated in these roundtable events. They represented a wide range of stakeholder groups, including investors; public sector representatives; preparers; those charged with governance (TCWG); national standard setters; regional and international organizations; and representatives of the accountancy profession (both those in public practice and in business). Observers included regulators and audit oversight authorities, PIOB members and staff, the IESBA CAG Chair, and certain members of the CAG and IAASB.

9.   Each of the roundtables consisted of a short plenary session to introduce the topic and provide contextual information for each NAS issue. The plenary session was followed by a breakout session with participants assigned to two groups in which the questions in the Briefing Paper were discussed. The participants reconvened after the breakout sessions to be briefed on the main takeaways from the discussions in each group.

10.   Information about each roundtable, including a list of roundtable participants, slides used for the plenary session, agenda materials discussed, and the list of participants for each breakout group is available on the IESBA's website.[4]

III.   Project Objectives and Scope, and How the Project Serves the Public Interest

Project Objective

11.   The objective of this 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.

Project Scope and Outline

12.   The project scope will encompass the International Independence Standards related to the provision of NAS to audit clients.

13.   The matters that the project will address are outlined below.

NAS that Create Threats, Materiality, and Public Interest Entities (PIEs) vs. Non-PIEs

14.   The project will involve the development of provisions that provide a clear and principles based approach, consistent with the conceptual framework, to the circumstances in which firms and network

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[4]   www.ethicsboard.org/roundtables-2018

firms may be permitted to provide NAS to audit clients. In this regard, the project will consider:

- The threats, in particular self-review threats, that are created by providing a NAS to an audit client and whether such service should be prohibited.

- In relation to those NAS that are not prohibited, how to ensure that any threats created are reduced to an acceptable level.

15. The project will consider:

- Whether to retain the use of "materiality" as a factor against which a threat should be evaluated or whether a different term should be used to:

    o Avoid confusion with the test used in the preparation of financial statements; and

    o Reduce the degree of subjectivity (and therefore inconsistency) that might occur.

- If the term "materiality" or a similar term (e.g., significant) is retained and used in contexts other than in referring to amounts and disclosures in financial statements, developing appropriate guidance to facilitate consistent application of such term.

- Whether to use a different threshold to determine when a threat created by providing a NAS is acceptable (e.g., whether the threat is "trivial and inconsequential," or whether the nature and extent of the threats should differ depending on the category of entity concerned).

16. The project will also consider whether different approaches should be taken if the particular NAS is to be provided to different categories of entities (i.e., PIE versus non-PIE[5]), taking into consideration specific suggestions made by roundtable participants.

New and Emerging Services

17. The project will involve:

    (a) Considering whether there are other services that should be explicitly addressed in the Code;

    (b) A review of the general provisions in the Code applicable to the provisions of NAS to ensure that they are remain appropriate to address new and emerging services; and

    (c) Exploring mechanisms capable of providing timely guidance to firms and others that explain how the general principles in the Code apply to new and emerging services, particularly those involving new technologies.

Requirements for Auditor Communication with TCWG

18. The project will involve a consideration of:

    (a) Whether to include the IAASB's requirements for auditor communications with TCWG about NAS in the Code, or a reference to such requirements.

    (b) Whether to include provisions that would require firms to obtain approval of a NAS engagement from TCWG in advance of that engagement being provided to audit clients (i.e., pre-approval of NAS). The WG's considerations will take into account the fact that the IESBA's remit cannot be extended to imposing obligations on TCWG.

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[5] This project does not involve reviewing the definition of a PIE.

NAS Disclosure Requirements

19.   The project will explore how best to respond to requests for enhanced disclosure requirements about NAS, having regard to the merits of transparency and the challenges highlighted by roundtable participants in achieving it. In particular, the project will explore issues relating to the relationship between NAS and audit fees (e.g., considering provisions that would require firms to re-evaluate threats to independence when NAS fees to audit fees reach a particular threshold).

Other Factors

20.   The project will involve a consideration of:

- The circumstances in which the prior or continuing performance of a NAS will affect the ability of the auditor to be independent;

- How the NAS provisions are applied to related entities;

- The appropriateness of the provisions relating to independence breaches in the context of providing NAS to audit clients; and

- Any other matters that are deemed relevant to achieve the objective of the project.

How the Project Serves the Public Interest

21.   The public interest will be served by having a Code that contains robust and high-quality provisions governing the provision of NAS to audit clients that are applied consistently across jurisdictions, thereby increasing confidence in the independence of audit firms.

Impact Analysis Considerations

22.   Any enhancements to the Code as a result of this project will strengthen the independence of professional accountants undertaking audits, thereby contributing to audit quality and increased public trust in the work of auditors.

23.   Changes to the Code will likely result in implementation costs at the national and firm levels, including translation, education and training.

24.   As the project progresses, further consideration of costs and benefits will be an important part of the IESBA's evaluation of options for addressing the identified issues. The nature and extent of those costs and benefits will depend on the nature and extent of the potential changes relating to particular courses of action.

IV.   Implications for any Specific Persons or Groups

25.   The project has implications for a wide range of stakeholders in the financial reporting supply chain, in particular:

(a)   TCWG in relation to their interactions with auditors on independence matters pertaining to the provision of NAS, and the regulatory and audit oversight community in relation to enforcement of independence requirements.

(b)   Audit clients and investors that rely on the audit when audit firms also provide NAS to those clients.

(c)   National standard setters (NSS) and IFAC member bodies that have adopted the Code, or used it as a basis or a benchmark for their own ethics and independence standards.

(d)   Firms that are subject to the requirements of the Code and/or national ethics and independence standards that are based on the Code.

SMP/ SME Considerations

26.   Depending on the nature of the proposals, there may be particular implications for smaller practices that audit small- and medium-sized entities. The IFAC SMP Committee will be kept apprised of developments to ensure that the IESBA receives appropriate input from the Committee at key stages of the project.

Coordination with IAASB and Others

27.   The project might have implications for the International Auditing and Assurance Standards Board's (IAASB) standards. As appropriate, the established principles of IAASB-IESBA coordination will apply.

28.   The project will also require interactions with regulators, NSS, IFAC member bodies and firms to understand the existing requirements, laws, regulations and established policies and procedures relating to firms' acceptance and performance of NAS engagements to clients that they audit.

29.   As necessary, the Task Force will coordinate its work and the timeline for the project with the Fees project, once approved, recognizing the importance of timely completion for both projects. For certain aspects of the project, it will also coordinate its activities and timing with the Technology and Rollout Working Groups.

V.   Development Process, Project Output and Project Timeline

Development Process

30.   It is anticipated that the project will follow the normal development process of the IESBA for changes to the Code.

31.   It is also anticipated that more frequent interactions will be required with some stakeholders, in particular, regulators, firms, NSS and IFAC member bodies, to keep them apprised, and to obtain their support, of the project scope and timeline. This is particularly important in light of the recent revisions to the Code.

Project Output

32.   It is anticipated that the output of the project will be revisions to the International Independence Standards relating to the provision of NAS to audit clients (i.e., Section 600).

33.   Depending on issues identified and revisions made, consequential and conforming amendments might be needed to Section 950[6] and other areas of the Code.

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[6]   International Independence Standards, Part 4B – Independence for Other Assurance Engagements Other than Audit and Review

34. Subject to IESBA consideration of the merits of options for addressing new or emerging services, the IESBA might commission the development of non-authoritative guidance such as IESBA Staff publications, or promote relevant publications developed by other organizations with respect to such services.

35. Matters that the Task Force deems extend beyond the scope of its remit will be referred to the IESBA's Planning Committee or the IESBA for further consideration.

Project Timetable

36. Subject to the IESBA's approval of the project proposal, this project will commence immediately. The specific project milestones and outputs will be dependent on the matters that the project Task Force ultimately determines are appropriate to address as part of the project, and the priorities assigned to those matters.

37. The table below provides indicative timing for the project up to and including approval of an exposure draft or consultation paper.

Indicative Timing	Milestone
September 2018	• CAG: Consideration of input from roundtables, WG's assessments and project proposal • IESBA: As above, and approval of project proposal
December 2018	IESBA discussion of issues
March 2019	CAG and IESBA: Discussion of issues
June 2019	• Discussion of issues and proposals with the IESBA-NSS liaison group • IESBA: First read of exposure draft/consultation paper
September 2019	• CAG: Discussion of proposed exposure draft/consultation paper • IESBA consideration and approval of exposure draft/consultation paper

VI. Resources Required

38. A project Task Force consisting of four to five individuals, including an IESBA member as Chair.

39. IESBA Staff will provide support to the project Task Force.

Engagements, Section 950, *Provision of Non-assurance Services to Assurance Clients Other than Audit and Review Engagement Clients*

VII.   Relevant Sources of Information that Address the Matter Being Proposed

40.   The WG will:

(a)   Review key NAS provisions across certain jurisdictions, including the various approaches that they have taken and the related rationale to determine how these approaches compare to the Code (i.e., benchmarking).

(b)   Review relevant research and national developments relating to NAS.

(c)   Undertake further and more targeted outreach to stakeholders as views and proposals are developed.