Proposed Revisions to the Non-Assurance Services Provisions of the Code

An exposure draft issued for public consultation by the International Ethics Standards Board for Accountants (**IESBA**)

Joint submission by Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants

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ACCA (the Association of Chartered Certified Accountants) and CA ANZ (Chartered Accountants Australia and New Zealand) created their strategic alliance in June 2016, forming one of the largest accounting alliances in the world. It represents 800,000 current and next generation accounting professionals across 180 countries and provides a full range of accounting qualifications to students and business. Together, ACCA and CA ANZ represent the voice of their members and students, sharing a commitment to uphold the highest ethical, professional and technical standards.

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About ACCA

ACCA is the Association of Chartered Certified Accountants. We're a thriving global community of **227,000** members and **544,000** and future members based in **176** countries that upholds the highest professional and ethical values.

We believe that accountancy is a cornerstone profession of society that supports both public and private sectors. That's why we're committed to the development of a strong global accountancy profession and the many benefits that this brings to society and individuals.

Since 1904 being a force for public good has been embedded in our purpose. And because we're a not-for-profit organisation, we build a sustainable global profession by re-investing our surplus to deliver member value and develop the profession for the next generation.

Through our world leading ACCA Qualification, we offer everyone everywhere the opportunity to experience a rewarding career in accountancy, finance and management. And using our respected research, we lead the profession by answering today's questions and preparing us for tomorrow.

Find out more about us at www.accaglobal.com

About CA ANZ

Chartered Accountants Australia and New Zealand (CA ANZ) represents more than 125,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live. Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

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GENERAL COMMENTS

ACCA and CA ANZ welcome the opportunity to comment on the proposals to revise the non-assurance services (**NAS**) provisions of the International Code of Ethics for Professional Accountants (including International Independence Standards) (**the Code**).

We are supportive of what the IESBA (**the Board**) is trying to achieve in addressing public perceptions and strengthening the International Independence Standards (**IIS**) within the Code. Most of the proposed changes are reasonable and represent a positive step forward, by responding to concerns about the independence of auditors. Clearly there is a need for clarifying and strengthening requirements, balanced with the importance of having a diverse multidisciplinary skill set to support high quality audits – overall, we believe the ED achieves this balance.

We strongly support the project to review the definition of a Public Interest Entity (**PIE**) used in the Code and to harmonise it, as far as possible, with the concept of an Entity of Significant Public Interest (**ESPI**) used in the International Auditing and Assurance Standards Board's (**the IAASB**) standards. Further we encourage the Board to complete the revision of the definition of a PIE before finalising and issuing the revisions to NAS and Fees. This would allow stakeholders to reconsider the proposed revisions for NAS and Fees in light of any consequences for entities who may be newly captured by a revised PIE definition.

We have identified some areas of concern with the proposals and these are highlighted in our response where appropriate. Specifically, we have concerns around two key areas of the proposals.

Firstly, that the revisions are focused strongly on the management of self-review threats as a means to enhancing auditor independence. While we accept that the appropriate awareness, and avoidance, of self-review threats are key to maintaining actual and perceived independence, we have concerns that this will focus auditors on this threat to the exclusion of others. Recent regulatory and user concerns have been more focused on familiarity and advocacy threats of auditors being 'too close' to clients. A tightening of the requirements in relation to self-review threats will not necessarily shift perceived independence if it does not address other key aspects that impact the perceived independence of auditors for external stakeholders.

Secondly, the proposed revisions result in an effective increase of a 'black-list' and introduce more rules to the Code. Our preference is always for the Code to have strong, clear principles that allow auditors and assurance practitioners to manage their ethical responsibilities appropriately. While we accept that it is necessary for the Code to contain some explicit prohibitions there is a need for balance.

A diverse skill base is important for high quality audits of complex entities, but strengthened and clarified independence rules, firm governance, and transparency are also required.

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AREAS FOR SPECIFIC COMMENT

Question 1: Do you support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14?

We are supportive of the proposed paragraph. However, we note that as judgement is still required to determine the existence of a self-review threat, there may still be inconsistencies in its application in practice.

Some of our members expressed concern that the focus on self-review threats through these changes focuses attention on this threat at the exclusion of others. While there is agreement that self-review threats impact actual and perceived independence, there were views expressed that recent audit inspection reviews and findings have heavily focused on familiarity and advocacy threats due to the public concern that auditors may be too close to clients. While it was not considered necessary to amend the Code in relation to those threats, there was concern that the proposed changes could focus attention on self-review threats and play down the importance of also addressing the other threats to independence.

We also think that the drafting and order of paragraphs in this section should be reconsidered. As the requirement for PIEs in paragraph 600.14 comes after the guidance in relation to the earlier guidance on self-review threats it would enhance the clarity of the paragraph if it referenced back to paragraphs 600.11A1 and A2 which describe what a self-review threat is and how a firm may identify if such a threat exists.

Question 2: Does the proposed application material in 600.11 A2 set out clearly the thought process to be undertaken when considering whether the provision of a NAS to an audit client will create a self-review threat? If not, what other factors should be considered?

The proposed application material covers the relevant points clearly. However, as noted in our response to Question 1, as judgement is still required to determine the existence of a self-review threat, there may still be inconsistencies in the application in practice.

Question 3: In the proposed application material relating to providing advice and recommendations in proposed paragraph 600.12 A1, including with respect to tax

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advisory and tax planning in proposed paragraph 604.12.A2, sufficiently clear and appropriate, or is additional application material needed?

The proposed application material is appropriate and clear. Some members expressed views that tax services are often a large part of NAS and that determining where these services fall within the requirements of the Code is complicated in practice even with additional guidance. This makes application and enforcement challenging.

Question 4: Having regard to the material in section I, D, "Project on Definitions of Listed Entity and PIE," and the planned scope and approach set out in the approved project proposal, please share your views about what you believe the IESBA should consider in undertaking its project to review the definition of a PIE.

We support the review of the definition of a PIE and strongly support the objective of harmonising the concept of a PIE contained in IESBA's standards with the concept of an ESPI contained within the IAASB's standards "to the greatest extent possible" as stated in the project objectives.

We recognise that the definition of a PIE is complicated and believe that the final definition still needs to allow room for local jurisdictions to include additional entities in the definition. For example, New Zealand has a broader definition of a PIE to allow for the fact that there are "reporting entities considered to have a higher level of public accountability" defined in legislation. Similarly, in the UK the FRC's Revised Ethical Standard 2019 has defined an "other entity of public interest" – an entity which does not meet the definition of a Public Interest Entity, but nevertheless is of significant public interest to stakeholders. Because the requirements of the Code are stricter for entities who are captured by the PIE definition it is important to get this definition right to ensure only auditors of entities that truly are of public interest have to comply with the PIE requirements.

We encourage the Board to complete the revision of the PIE definition before finalising the NAS and Fees amendments so that stakeholders can reconsider the proposed revisions for NAS and Fees in light of any consequences for entities who may be newly captured by a revised PIE definition.

Question 5: Do you support the IESBA's proposals relating to materiality, including the proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs (see Section III, B "Materiality")?

There is general acceptance of the withdrawal of the materiality qualifier in relation to PIEs. Given stakeholder concerns about auditor independence, firms should not use the materiality qualifier to justify the provision of NAS to any entity its audits if it creates a self-review threat.

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Question 6: Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of materiality:

- **Tax planning and tax advisory services provided to an audit client when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R604.13)**
- **Corporate finance services provided to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R610.6)?**

While we support these prohibitions, our members expressed concerns that this would result in an increasing number of rules (i.e. prohibitions/blacklisted services) within the Code that has a principles-based approach to independence. If the principles of the Code are sufficiently robust and explained with clear statement requirements and application material, increasingly detailed prohibitions should not be needed. Consideration should be given as to whether the Code could deal with NAS services where the audit team has doubt about the appropriateness of an accounting treatment or presentation in another way.

Question 7: Do you support the proposals for improved firm communication with TCWG (see proposed paragraphs R600.18 to 600.18 A1), including the requirement to obtain concurrence from TCWG for the provision of NAS to an audit client that is a PIE (see proposed paragraph R610.6)?

We agree that enhanced communications with TCWG is in the public interest. In Australia and New Zealand, this is common practice for many PIEs (and some non-PIEs) as it is recommended in the ASX Corporate Governance Principles and in the NZX Corporate Governance Code that the audit committee/TCWG consider any proposed provision of non-audit services by the auditor. In the UK, the UK Corporate Governance Code requires audit committees to develop the company's policy on the engagement of the external auditor to supply non-audit services.

Question 8: Do you support the proposal to move the provisions relating to assuming management responsibility from Section 600 to Section 400, and from Section 950 to Section 900?

We support the relocation of the provisions. However, there are concerns around the guidance in R400.32 and if these provisions are workable in practice. In particular, the requirement to have an external party perform an engagement "equivalent to an engagement quality review". While ISQC 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* sets out high level requirements in relation to the policies firms should establish for quality reviews, these will, by

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their nature, be different between firms. Whose policies would be followed for such a review? How would differences in opinion be resolved?

Question 9: Do you support the proposal to elevate the extant application material to the provision of multiple NAS to the same audit client to a requirement (see proposed paragraph R600.10)? Is the related application material in paragraph 600.10 A1 helpful to implement the new requirement?

We support this proposal.

Question 10: Do you support the proposed revisions to subsections 601 to 610, including:

- **The concluding paragraph relating to the provision of services that are "routine or mechanical" in proposed paragraph 601.4 A1?**

  We support this proposal. We note that this will still involve judgement in determining the nature of such services and whether they constitute assuming management responsibilities.

- **The withdrawal of the exemption in extant paragraph R601.7 that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if certain conditions are met?**

  We support this proposal.

- **The prohibition on the provision of a tax service or recommending a tax transaction if the service or transaction relates to marketing, planning or opining in favour of a tax treatment, and a significant purpose of the tax treatment is tax avoidance (see proposed paragraph R604.4)?**

  We support this proposal. Although some concern was expressed that the introduction of this prohibition could be problematic as judgement is required to determine the purpose and significance of the tax treatment. Some expressed the view that the potential threat arising from the provision of this tax service to an audited entity would appear to relate more to other independence threats, rather than self-review.

- **The new provisions relating to acting as a witness in subsection 607, including the new prohibition relating to acting as an expert witness in proposed paragraph R607.6?**

  We support these proposals.

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Question 11: Do you support the proposed consequential amendments to Section 950??

We support consequential amendments being made to section 950, subject to our comments on the proposed amendments above.

Question 12: Are there any other sections of the Code that warrant a conforming change as a result of the NAS project?

We are not aware of any other areas within the Code that may warrant a conforming change as a result of the proposed revisions.

Request for general comments

*Those Charged with Governance (**TCWG**), including Audit Committee Members:*
Regular and robust communication between firms and TCWG is critical to maintaining effective governance and financial reporting oversight. Enhanced communication and transparency of information regarding NAS to TCWG for PIEs better informs the views and decisions of TCWG and assists them in assessing auditor independence. The requirement for TCWG to concur with the provision of both audit/assurance services and NAS to a PIE will also assist to enhance independence. Inevitably, the proposals will entail greater commitment from TCWG. However, we believe any concerns are outweighed by the public interest. As some members in business will be acting as TCWG, the Board should consider what guidance can be provided for members in business who are preparers on how they fulfil their role in making judgements and assessments in relation to auditor independence.

*Small and Medium-Sized Entities (**SMEs**) and Small and Medium Practices (**SMPs**):*
SMEs and SMPs are important stakeholders in developing and enhancing the Code. It is within such organisations (with more limited resources, including fewer personnel) where changes in behaviours are best supported through clear guidance which is proportionate and scalable. The impact of the proposed changes is higher for PIEs but will impact all entities. In some jurisdictions, PIEs may be small and the proposed changes may be costly and impractical for some smaller firms and businesses. The development of IIS should command public trust, but the standards also need to allow for efficiency and choice.

Regulators and Audit Oversight Bodies:
Any changes to the Code must focus on the desired outcomes, and the behavioural changes that will be perceived by the public, rather than simply whether the Code's requirements are comprehensive. Therefore, the drafting of the Code must be clear, and it must be drafted with due regard to enforceability.

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Developing Nations:
Member bodies in different parts of the world operate within a range of cultural environments. While ethical values should not be regarded as relative to location or culture, clarity and sensitivity are important with regard to developing the Code. We believe the Code should remain principles-based and provide a clear framework, while allowing the flexibility for tailored implementation guidance by national standard setters and/or professional bodies. The provisions need to provide practical and effective guidance in respect of the provision of both audit/assurance services and NAS to an entity, in order to aid consistency of understanding, interpretation and application across all the IFAC member organisations.

Translations:
Translation of the Code for adoption in various environments is a challenging process for translators. Further changes will inevitably create inefficiencies and place additional demands on translation resources which could threaten accurate translation of the Code and compliance. In our opinion, the proposals should be clear, consistent and logical, and a realistic translation period is required. Although, as drafted, the proposed revisions would be unlikely to present translation issues as they use generally understood phrases rather than specific terms, the Board should remain alert to this in proposing any further changes to the existing wording.

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