

16 June 2020

Mr Ken Siong  
Senior Technical Director  
International Ethics Standards Board

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Dear Mr Siong

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

The Institute of Public Accountants welcomes the opportunity to comment on the Proposed *Revisions to the Non-Assurance Services (NAS) Provisions of the Code*.

As stated in previous submissions, we remained deeply concerned at the excessive rule-making and complexity of the NAS provisions of the Code. In our considered opinion, the existing and proposed provisions do not reflect the public interest but rather the interests of the audit firms and their clients.

The existing rules are complex, lengthy, arbitrary and inconsistent. The rules for NAS must be principles-based.

For simplicity and to protect and enhance audit independence, the NAS principle should be that the provision of non-assurance services should be banned in respect of public interest entities.

In a pragmatic sense, some short-term concessions could be applied to non-PIES with a sun-set provision of say five years. But over-time the differences between PIES and non-PIES need to be significantly narrowed.

If you would like to discuss our comments, please contact me or our technical advisers Sonya Sinclair ([sonya@ecorac.com.au](mailto:sonya@ecorac.com.au)) or Colin Parker ([colin@gaap.com.au](mailto:colin@gaap.com.au)), GAAP Consulting.

Yours sincerely



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c.c. AUASB and APESB

## **About the IPA**

The IPA is a professional organisation for accountants recognised for their practical, hands-on skills and a broad understanding of the total business environment. Representing more than 35,000 members in Australia and in over 65 countries, the IPA represents members and students working in industry, commerce, government, academia and private practice. Through representation on special interest groups, the IPA ensures the views of its members are voiced with government and key industry sectors and makes representations to Government including the Australian Tax Office (ATO), Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA) on issues affecting our members, the profession and the public interest. The IPA recently merged with the Institute of Financial Accountants of the UK, making the new IPA Group the largest accounting body in the SMP/SME sector in the world.

## Appendix

### Proposed Revisions to the Non-Assurance Services Provisions of the Code – Comments on Specific Questions

#### Prohibition on NAS that Will Create a Self-review Threat for PIEs

*Q1: Do you support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14?*

We are opinion that that R600.14 should simply state ‘A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity’. The conditionally of ‘if a self-review threat will be created in relation to the audit of the financial statements on which the firm will express an opinion’ should be removed. Our proposal would simplify the auditor’s considerations and judgements needed; and better reflect the public interest role of the independent auditor.

*Q2: 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?*

Subject to our comments in question 1, we suggest making reference to ‘accounting treatments and disclosures’.

#### Providing Advice and Recommendations

*Q3: Is the proposed application material relating to providing advice and recommendations in proposed paragraph 600.12 A1, including with respect to tax advisory and tax planning in proposed paragraph 604.12 A2, sufficiently clear and appropriate, or is additional application material needed?*

No, in relation proposed paragraph 604.12 A1, we consider that providing advice and recommendations creates a self-review threat and should be identified as such, rather than current construct ‘may’ constitute such a risk.

No, in relation proposed paragraph 604.12 A2, it is considered that the application material needs to be reconsidered in the context of Interpretation 23 *Uncertainty over Income Tax Treatments*.

Furthermore, it is considered that the application guidance should not be so definitive in stating ‘Providing tax advisory and tax planning services, *will not* create a self-review threat if such services’ (emphasis added) where any of the three specified conditions are met. Whilst advice given to an audit client may be based on a relevant tax ruling, it can still be challenged by the regulatory authority.

Consideration should be given to removal of the proposed paragraph 604.12 A2.

#### Project on Definitions of Listed Entity and PIE

*Q4: 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.*

In our opinion the definition of a PIE should be aligned with definition of public accountability that is applied by the IASB.

In addition, the definition should be supported by application guidance that recognises that types of entities that would commonly meet the definition of a PIE. The commonality could be drawn from such sources as Article 2.13 of the EU Directive 2006/43/EC, amended by Directive 2014/56/EU, and our local articulation of PIES which expands on the Code's definition:

#### 'Public Interest Entities

400.8 Some of the requirements and application material set out in this Part reflect the extent of public interest in certain entities which are defined to be Public Interest Entities.

AUST R400.8.1 Firms shall determine whether to treat additional entities, or certain categories of entities, as Public Interest Entities because they have a large number and wide range of stakeholders. Factors to be considered include: • The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds. • Size. • Number of employees.

AUST 400.8.1 A1 The following entities in Australia will generally satisfy the conditions in paragraph AUST R400.8.1 as having a large number and wide range of stakeholders and thus are likely to be classified as Public Interest Entities. In each instance Firms shall consider the nature of the business, its size and the number of its employees: • Authorised deposit-taking institutions (ADIs) and authorised non-operating holding companies (NOHCs) regulated by the Australian Prudential Regulatory Authority (APRA)<sup>9</sup> under the Banking Act 1959; • Authorised insurers and authorised NOHCs regulated by APRA<sup>10</sup> under Section 122 of the Insurance Act 1973; • Life insurance companies and registered NOHCs regulated by APRA<sup>11</sup> under the Life Insurance Act 1995; • Private health insurers regulated by APRA<sup>12</sup> under the Private Health Insurance (Prudential Supervision) Act 2015; • Disclosing entities as defined in Section 111AC of the Corporations Act 2001; • Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeship that have five or more members, regulated by APRA<sup>13</sup> under the Superannuation Industry (Supervision) Act 1993; and • Other issuers of debt and equity instruments to the public.'

In addition, crowdfunding needs to be considered as well as how public accountability can be appropriately applied in NFP sector.

As a general proposition, financial statements lodged by with a regulator that are on the public record would in our view constitute a PIE.

## **Materiality**

*Q5: 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")?*

Subject to our comments in the covering letter and question 1, we support the proposal to withdraw the materiality qualifier in relation to *all* (not certain) NAS prohibitions for audit clients that are PIEs. This would remove a judgement call leading to consistent outcomes by firms and also make such assessment more principles-based.

*Q6: 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)?*

Yes, and subject to the comments in our covering letter.

- *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)?*

Yes, and subject to the comments in our covering letter.

## **Communication with TCWG**

*Q7: Do you support the proposals for improved firm communication with TCWG (see proposed paragraphs R600.18 to 600.19 A1), including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE (see proposed paragraph R600.19)?*

Subject to our comments in question 1 (and our covering letter), we agree with the proposal.

There reference to ‘direct and indirect control’ should align with ‘control’ as defined by international accounting standards. The reference to ‘related entities’ is terminology inconsistent with those standards.

## **Other Proposed Revisions to General NAS Provisions**

*Q8: 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?*

Yes.

*Q9: Do you support the proposal to elevate the extant application material relating 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?*

In relation to both questions, yes.

## **Proposed Revisions to Subsections**

*Q10: 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?*

Yes, with the exception of the reference to ‘preparing related notes based on client-approved records’. Many notes require detailed knowledge of the entity, professional judgement, the application of materiality and the provision of qualitative information, these cannot be considered ‘routine or mechanical’. This exception should be deleted.

Entities that are not PIEs should be subject to the same test of *routine or mechanical* as this negates the threats to self-interest and self-review, and enhances audit independence. We *strongly disagree* that with the proposal that auditors of entities that are not PIEs should be

permitted not to apply the test of *routine or mechanical* in relation to financial statements preparation.

Audit provides independent credibility to the financial statements and notes and as such any role in financial statements preparation should *at least* be restricted to *routine or mechanical*.

- *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?*

Agree.

- *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 favor of a tax treatment, and a significant purpose of the tax treatment or transaction is tax avoidance (see proposed paragraph R604.4)?*

Agree.

- *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?*

Agree.

### **Proposed Consequential Amendments**

*Q11: Do you support the proposed consequential amendments to Section 950?*

We support the proposals.

*Q12: Are there any other sections of the Code that warrant a conforming change as a result of the NAS project?*

No further comment.