

## AGENDA PAPER

**Item Number:** 5  
**Date of Meeting:** 4 September 2018  
**Subject:** Update on IESBA Roundtable held in Melbourne

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Action required     For discussion     For noting     For information

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### Purpose

To provide the Board with an update on the IESBA roundtable on Non-Assurance Services and Professional Scepticism held in Melbourne on 21 July 2018, which was co-hosted by the APESB and New Zealand XRB.

### Background

The IESBA has been undertaking a project on professional scepticism since May 2017, and have recently released a [consultation paper](#), *Professional Skepticism – Meeting Public Expectations*. The objective of the consultation paper was to assess support for a broad definition of professional scepticism, separate to that of auditing, which would apply to all Members of the accounting profession.

Concurrently, the IESBA has been undertaking a separate project on the provision of non-assurance services to an assurance client. As part of their stakeholder engagement process they have released a [briefing note](#), *Non-assurance Services, Exploring Issues to Determine a Way Forward*.

As part of these projects, the IESBA initially undertook to complete three international roundtables in Washington D.C., Paris, and Tokyo.

Due to the request from the APESB and New Zealand XRB, the IESBA determined to hold the fourth roundtable in Melbourne.

### The IESBA Roundtable Event

Forty-one attendees participated in the IESBA roundtable held in Melbourne at CPA Australia's office. IESBA Deputy Chair, Richard Fleck, and Board Member Trish Mulvaney chaired the two discussion groups. The two groups considered non-assurance services in the morning session and professional scepticism in the afternoon session.

## **Non-Assurance Services**

### Background

Non-assurance services (NAS) are services, provided by an audit firm to an audit client, which do not form part of an audit engagement. Section 600 of the restructured Code deals with NAS and includes a number of requirements and application materials, including:

- A requirement to determine, prior to accepting the engagement, whether such a service would create a threat to the fundamental principle of Independence;
- A requirement prohibiting assuming management responsibilities of a client when providing NAS to an audit client;
- Situations where safeguards are not sufficient to reduce or eliminate the threat to compliance with the fundamental principles;
- A requirement to consider the combined effect of threats where multiple NAS are provided to an audit client; and
- Prohibitions on specific types of NAS in specific circumstances (sections 601 to 610).

The IESBA, are undertaking these roundtables, in order to determine whether the current provisions in the Code are sufficient, or whether stricter provisions are required (including a possible structure for these provisions).

### Roundtable discussion

The discussion commenced with Academics noting that audit fees may not be adequately covering the costs of performing an audit, leading to firms seeking to recoup fees through NAS to audit clients.

The discussion then progressed to a whether there should be a prohibition on firms providing any NAS to an assurance client, with a view that all NAS have a detrimental impact on auditor independence.

In circumstances where the NAS work is considered in the audit process (e.g., tax services or valuation services), there was a view that, whether consciously or not, audit teams tend to readily accept work completed by another part of the firm, regardless of the overall quality of the work.

A regulator stated they had noted a decrease in the overall quality of financial statements where significant NAS are provided by the audit firm. The general consensus was that there is a link between NAS and audit quality. A representative from a National Standard Setter (NSS) noted that this perception was not evidenced by research and that it is possible that only specific types of NAS are problematic.

A participant stated they did not believe audit firms should be split up. Another stakeholder noted that extreme views or actions (e.g., splitting up firms or an outright ban on NAS) detract from the IESBA's overall goal of lifting the standards of the entire profession. There was a general view in both groups that strategic decisions such as the structure of firms and the services they provide should be left up to individual firms to determine.

The general consensus in both groups was that a principles-based Code is more effective than a list of prohibitions or a "black list," with a stakeholder commenting that:

- principles are enforceable just as prohibitions are;
- black-lists foster a mindset that searches for loopholes; and
- Black-lists (or prohibitions) are at risk of becoming redundant as new services emerge.

An NSS representative commented that it is impossible to out-pace technological innovation, so principles were the most effective means of keeping standards relevant.

There was also discussion of the cost-effectiveness of an audit firm conducting NAS for an audit client, as pre-existing knowledge of the client may decrease the required workload and the subsequent cost, of the NAS to the Client.

Materiality was a fairly contentious topic with views such as:

- it is unnecessary in the event of an outright ban or prohibitions list,
- it is difficult to quantify,
- some firms may not have the correct mindset to apply the materiality requirement.

It was acknowledged, however, that if NAS were allowed (i.e., a prohibition was not included in the Code), a materiality component would be a necessary inclusion in determining whether the NAS services could be offered.

Stakeholders stressed that the expectations of the general public surrounding materiality differ from that of auditors, so an educational effort to clarify the auditing concept of materiality was important.

The discussion then shifted to the dichotomy between Public Interest Entities and non-Public Interest Entities. A regulatory participant was of the view that, ideally, there would be no difference, but acknowledged that this would depend on individual markets.

Pre-approval of NAS by audit committees was briefly discussed, with consensus among most participants that it is a practical way to promote conscious thought surrounding the approval of NAS by an assurance client. However, it was noted that the Code only applies to Members, so any involvement of the audit committee would need to be auditor-initiated.

There was also discussion of the transparency of audit and NAS fees, with a general consensus that disclosure of total NAS fees paid, not just those paid to the audit firm, would provide stakeholders with context to assist in interpreting the fees paid to accounting firms, and in assessing whether this is a cause for concern.

## **Professional Scepticism**

### Background

The IESBA has been working on a project on professional scepticism, with the aim of determining whether the concept should apply to all Members, rather than just those engaged in an assurance engagement. The project aims to gauge industry support for the following:

- Whether such a concept should apply to all Members;
- Whether such a concept should be termed, “professional scepticism” or something different; and
- Whether to keep the current audit definition or create a new broader definition.

### Roundtable discussion

Professional Scepticism was a fairly contentious topic, with two primary opinions: one, that the concept of Professional Scepticism should apply broadly to all Members; and two, that Professional Scepticism is an assurance-specific concept and should, therefore, only apply to assurance practitioners.

There was also discussion of the relative importance of judgement used by Members in Business as compared to Members in Public Practice using Professional Scepticism, and the implication of this on any potential application material within the Code.

There was a broad consensus within both groups that the current definition of Professional Scepticism is audit-centric to be applied to the entire accounting profession. Stakeholders noted that extending the concept of Professional Scepticism may increase the expectations gap, rather than reduce it.

A NSS representative raised the possibility that meeting public expectations might be improved by increasing scrutiny of preparers and Those Charged with Governance rather than of auditors. Similarly, there were concerns raised that, without knowing the root causes of non-compliance issues, increased requirements surrounding scepticism would be ineffective at increasing compliance with the Code.

Another NSS representative commented that scepticism is a hallmark of any profession and is not limited to auditors. This was supported by another stakeholder, who stated that, when reviewing information from a client, Members are expected not simply to accept that information at face value without scrutiny. It was also noted that professional scepticism is referred to in other professions and is not a concept that is unique to the audit profession. A stakeholder noted that a way forward might be to rename the existing concept of professional scepticism in the auditing standards as auditor scepticism or a similar term.

There was also a discussion on the importance of the *appearance* of scepticism, not just of scepticism as a mindset. A public interest test was also flagged, to help define the term for Members in Business. A stakeholder also commented that acting in the public interest is not an accounting-specific requirement – all professions are expected to act in the public interest.

IESBA deputy chair, Richard Fleck, indicated that a requirement surrounding Professional Scepticism for all Members had broad support from the PIOB. However, the IESBA was also considering creating a new term, most likely “Professionalism,” to address aspects of Professional Scepticism for Members who are not part of an audit function.

There was a discussion of the onus that a requirement such as ‘acting in the public interest’ would place on Members, with a general shift of public expectations away from the acceptance of risks inherent in professional activities. However, broad support was given to the development of application material in relation to documenting the ethical decision-making process to ensure that it withstands any potential future scrutiny.

There was also broad support from both groups for including application material to address biases, as well as a statement at the beginning of the Code to increase awareness of the Code’s objectives.

## **Way Forward**

APESB and New Zealand XRB staff prepared summary notes and provided these for the IESBA’s consideration.

Subsequent to the roundtable, APESB has also lodged a submission on professional scepticism, and the technical team will continue to monitor the progress of the projects

## **Staff Recommendation**

The Board note the update on the IESBA roundtable event held in Melbourne.

**Material Presented**

Agenda Item 5 (a) – List of Melbourne Roundtable Attendees

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**Date:** 16 August 2018