

IESBA's Exposure Drafts on Non-Assurance Services and Fees

APESB Roundtable

Melbourne, 2 April 2020



Accounting Professional & Ethical Standards Board

APESB Roundtable - Agenda

2.00 PM	Welcome and Background
2.10 PM	Current NAS provisions & related developments
2.20 PM	IESBA's <i>Non-Assurance Services Provisions</i> ED
2.35 PM	Roundtable discussions – NAS
3.00 PM	Feedback Session – NAS
3.30 PM	Break
3.45 PM	Current Fees provisions
3.50 PM	IESBA's <i>Fees Provisions</i> ED
4.05 PM	Roundtable discussions – Fees
4.30 PM	Feedback Session – Fees
4.55 PM	Closing remarks

Welcome and Background

Nancy Milne OAM
Chairman



Proposals to Strengthen Independence Provisions

Exposure Draft
January 2020
Comments due: May 4, 2020

International Ethics Standards Board
for Accountants®

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



Exposure Draft
January 2020
Comments due: May 4, 2020

International Ethics Standards Board
for Accountants®

Proposed Revisions to the
Fee-related Provisions of the
Code



Why change the International Independence Standards?

- Code provides a strong foundation, but more work is needed for:
 - Changing public expectations about auditor independence
 - Changes in laws, regulations and firm policies
- The IESBA's NAS and Fees projects prioritised under their current Strategy and Work Plan
 - Projects informed by research, public consultation and global outreach
 - Project proposals approved in September 2018

Important dates

Consultation process	Date
Online roundtable - Sydney	1 April 2020
Online roundtable - Melbourne	2 April 2020
Local stakeholders' submissions to APESB	17 April 2020
Submissions due to the IESBA on the NAS and Fees Exposure Drafts	4 May 2020

PJC Inquiry into the regulation of auditing in Australia

- In August 2019, Senate established an inquiry into the regulation of auditing, conflicts of interest and the performance of regulators
- Inquiry led by PJC on corporations and financial services
- Interim report released February 2020
 - Makes 10 recommendations
 - Does not recommend any major structural changes to legislative and regulatory framework

PJC Recommendations related to NAS

- Establish **defined categories** and associated **fee disclosure** requirements in relation to audit and non-audit services [*Recommendation 3*]
- Establish a **list of non-audit services** that audit firms are **explicitly prohibited** from providing to an audited entity [*Recommendation 3*]
- The **auditor's independence declaration** must specifically confirm that **no prohibited non-audit services** have been **provided**. [*Recommendation 4*]
- Consider revising APES 110 to include a **safeguard** that **no audit partner** can be **incentivised**, through remuneration advancement or any other means or practice, for **selling non-audit services** to an audited entity [*Recommendation 5*]

Current NAS provisions and related developments

Channa Wijesinghe
Chief Executive Officer



Current NAS Provisions in the Code (APES 110)

- Set out in the Code at:
 - Section 600 - audit and reviews
 - Section 950 - other assurance engagements
- Key prohibition on assuming management responsibilities

Prohibition - Assuming Management responsibility

Management responsibilities include

- Setting policies and strategic direction
- Hiring or dismissing employees
- Directing and taking responsibility for work of employees of the entity
- Authorising transactions
- Controlling or managing bank accounts and investments
- Deciding which recommendations of third parties to implement
- Reporting to TCWG on behalf of management
- The preparation and fair presentation of financial statements
- Internal control systems – design, implementation, monitoring & maintaining

NAS prohibitions for PIEs

The Code sets out **prohibitions** for specific Non-Assurance Services when auditing a PIE. The prohibitions include:

- performing Accounting & Bookkeeping services
- Serving as General Counsel
- Promoting, dealing in, or underwriting client's shares
- Negotiating for the client
- **Recruiting** directors/officers, or senior management who have significant influence over financial statements
- **Compensating** audit partner based upon sale of Non-Assurance Services to their audit clients

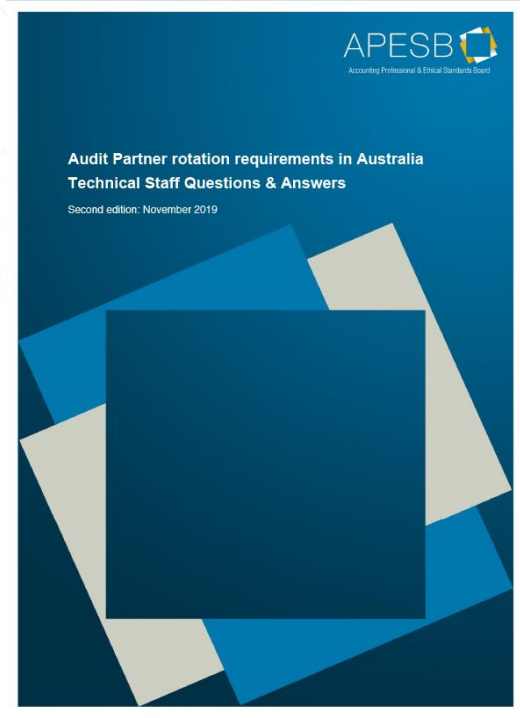
NAS Prohibitions based on materiality

Some NAS are prohibited if they would have a **material impact** on the financial statements. The prohibitions include:

- Valuation services
- Calculation of deferred & current taxes
- Tax or corporate finance advice dependant on treatment or presentation where reasonable doubt as to its appropriateness
- Acting as an advocate before a public tribunal or court to resolve a tax matter
- Acting as an advocate to resolve a dispute or litigation support
- Internal audit services relating to financial reporting, financial accounting systems or financial statement disclosures and amounts
- Designing/implementing financial reporting IT systems

Related developments

- [Revised Technical Staff Q & A](#)
 - Issued November 2019
- [APES 110 PIE Prohibitions Summary](#)
(Nov 2019)
- APESB Submissions to the PJC Inquiry into Audit Regulation



Related developments

- Revised Auditors Independence Guide
 - To be issued Qtr. 2 2020
- New APESB website and apps
 - Expected to go live Qtr. 2 2020



Overview of IESBA's Exposure Draft
*Proposed Revisions to the Non-Assurance Services
Provisions of the Code*

Background for NAS Proposals

- Responding to stakeholder concerns re permissibility of NAS to audit clients
 - A set of high quality, globally operable provisions
 - Shift in public expectations re auditor independence
 - Maintaining relevance of the Code re new services
 - Changing laws & regulations, and in some cases firm policies
- 2018 Global roundtables (Washington DC | Paris | Tokyo | Melbourne)



PIE and Non-PIE Provisions

NAS provisions for audits of PIEs and non-PIEs continue to be different

- When an audit client is a PIE, stakeholders have heightened expectations regarding independence (para 600.13 A1)
- More work to be done, including to review description of PIE in the Code and alignment with IAASB's Entity of Significant Public Interest
- Revisiting PIE definition is not part of NAS project

Separate project to review PIE definition – timing accelerated

Key NAS Proposals

New general prohibition on providing NAS that will create a **self-review threat** for PIEs (para R600.14)

Stricter provisions with more prohibitions and enhanced clarity about the provision of NAS to an audit client, especially for PIEs

- Stricter approach re: consideration of materiality
- New provisions re: firm communication with TCWG
- For PIEs, firm to obtain concurrence before providing NAS

Assuming Management Responsibility

- Provisions on assuming management responsibility to be moved from s600 to s400 (and from s950 to s900)
 - Increase prominence of overarching principle
 - provision substantively unchanged

A firm shall not assume a management responsibility for an audit client.

Self-review Threat Prohibition

- Prohibited from providing NAS to **PIE audit client** if a self-review threat created in relation to the audit of the financial statements on which the firm will express an opinion (Proposed para. R600.14)
- A self-review threat created by providing a NAS to a PIE:
 - cannot be eliminated, and
 - safeguards are not able to reduce the threat to an acceptable level
- Not as strict for non-PIEs



Threats Created by Providing a NAS to Audit Client

For PIEs, critical to identify self-review threats:

- Will results of NAS affect accounting records, internal controls on financial records, or financial statements?
- Will results of NAS be subject to audit procedures?
- Will judgments made or activities performed in the course of providing the NAS be relied upon in making audit judgments?

Determining Whether a Threat Relates to Self-review



- Extant paras. **R120.6** to **120.6 A4** and **300.6 A1** are relevant in identifying any threat to independence.
- Extant paras. **R120.7** to **120.9 A2** and **300.7 A1** to **300.7 A7** helps in evaluating whether a threat is at an acceptable level.
- New factors added in proposed para. **600.9 A2**. These factors are relevant in identifying and evaluating threats.
- The subsections include additional factors (e.g., proposed paras. **604.3** and **604.12 A3**).
- New guidance to help firms determine whether a NAS will create a self-review threat in proposed paras. **600.11 A2** to **600.13 A2**.

Materiality

Materiality qualifier withdrawn → Prohibition for all entities now stricter

For Non-PIE audit clients

- Extant description of materiality retained
- Clarification that materiality is relevant in evaluating whether a NAS-threat is at an acceptable level

For PIEs

- Materiality **no longer** a factor in determining whether a NAS will create a self-review threat
- No consideration of materiality = more NAS prohibitions (e.g., withdrawal of exemption re provision of accounting & bookkeeping for divisions/related entities)

Providing Advice and Recommendations (A&R)

Providing A&R to an audit client **might create a self-review threat** depending on the specific facts and circumstances

For PIEs:

- Self-review threat will be created → NAS is prohibited
- Self-review threat will NOT be created → NAS permissible if other threats are addressed

Subsections contains examples where A&R will not create a self-review threat. For example tax planning services (para 604.12 A2)

Tax Services

- Prohibition on marketing, planning or opining on a tax treatment (where the significant purpose is tax avoidance) unless the treatment is allowed under laws and regulations
- Tax advice or planning services will not create a self-review threat when:
 - a) supported by a tax authority or other precedent;
 - b) based on an established practice (being a practice that has been commonly used over a long period and has not been challenged by the relevant tax authority); or
 - c) Has a basis in tax law that is likely to prevail

Acting in an Advocacy Role

Extant Code includes requirements that apply to all entities

- A firm or a network firm **shall not act** in an advisory role for an audit client in resolving a dispute or litigation **when the amounts involved are material to financial statements**
- Service permissible when amount is immaterial and safeguards are available to reduce threat to acceptable level

Proposal is **more stringent** for audit clients that are **PIEs** with the removal of the reference to materiality

- No change to extant approach for non-PIEs; safeguards may be applied to reduce threats to an acceptable level

Acting as a Witness

- Enhanced clarity about circumstances in which firm might give evidence to court or tribunal
 - No advocacy threat if appointed by court/tribunal
- **New prohibition** on acting as an expert witness in a dispute involving an audit client that is a PIE unless appointed by a tribunal or court [Proposed para. R607.9]
- Similar provision currently in APES 215 *Forensic Accounting Services*



Communication with TCWG (for PIEs)

For related entities over which audit client has direct or indirect control, firms to:

1. Obtain concurrence from TCWG before providing NAS to audit client; and
2. Communicate with TCWG about:
 - Nature and scope of NAS to be provided
 - Any threat to independence identified
 - Whether threat is at an acceptable level, the actions to be taken to address such threat, and how these actions will reduce the threat to an acceptable level

For listed entities – ISAs require auditor communications with TCWG about independence

All entities – Code encourages firm communication with TCWG about independence matters

Firm and TCWG may establish a suitable process

Clarification about Period for Which Independence is Required for PIEs

Prohibition on accepting audit appointment for a PIE if firm has provided a NAS that would create a self-review threat prior to such appointment unless the provision of such NAS has ceased and:

- a) NAS service subject to auditing procedures in the audit of the prior year's financial statements by a predecessor firm;
- b) The firm engages an external PA (not a member of the firm) to perform a review of the first audit engagement affected by the self-review threat that is equivalent to an EQR; **or**
- c) The PIE engages another firm to evaluate the results of the NAS; or re-perform the NAS, in either case to the extent necessary to enable the other firm to take responsibility for the NAS

Project Timeline

Date	Milestone
June 2020	Discussion of highlights of significant comments
September 2020	<ul style="list-style-type: none">• Discuss significant issues with the IESBA CAG• Full IESBA review of respondents' comments and first read of revised proposals
December 2020	Approval of final pronouncement

** Timelines for NAS and Fees projects are aligned*

PJC related considerations that may impact NAS

- What changes required in legislation or standards to meet the recommendations?
- Will the proposed changes to the Code align with the PJC recommendations or should more be done?
- Are there any practical issues with implementation?
- Will the recommendations apply to all audit clients or just PIEs?
- Are the recommendations likely to change between the interim and the final report?

Roundtable Discussions - NAS

Channa Wijesinghe
Chief Executive Officer



Matters for discussion

1. The proposals for the Code suggest that not assuming management responsibility should be an overarching requirement for all audits and reviews (not just NAS).

In the US, there are three main overarching principles of:

- Auditor cannot function in the role of management
- An auditor cannot audit their own work.
- Auditor cannot serve in an advocacy role for their client

Should the Code have the same overarching principles that apply to all audits (not just to NAS)?

2. The prohibition on self-review threats is only applicable for audit clients that are PIEs. Is this appropriate? What are the specific circumstances that would make it acceptable for an auditor to undertake NAS for an audit client who is not a PIE, when there is a threat of self-review?
3. What would you suggest as the categories for fees disclosures in relation to audit and non-audit services?

Matters for discussion

4. Does the inclusion of the words 'if it creates a self review threat' in a requirements paragraph soften the requirement or make the requirement less enforceable (especially when it is established that the provision of a service will create a self-review threat)? (for example, refer proposed paragraph R601.5)
5. Do you see any issue with the removal of the materiality qualifier? Are there services that could be provided to an audit client if they are immaterial?
6. Will the proposed changes to the NAS provisions make the prohibited NAS services more explicit? How should the list of explicitly prohibited services be presented (as currently there are prohibitions in both the *Corporations Act 2001* and the Code)?
7. Do you support the proposals to require providing Those Charged with Governance (TCWG) of PIE audit clients with sufficient information to make an informed decision about the impact of NAS on independence and to obtain concurrence from TCWG about the provision of the service and the firm's assessment of any threats to independence have been addressed?

Matters for discussion

8. In practice, how would the PJC recommendation relating to prohibiting audit partners from being incentivised from the sale of non-assurance services to audit clients of the firm work? What are the matters that APESB would need to consider when formulating such a requirement?
9. Does the proposed application material in paragraph 600.11 A2 (replicated below) 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 (should all three elements be required)? If not, what other factors should be considered?

Identifying whether the provision of a non-assurance service to an audit client will create a self-review threat involves determining whether there is a risk that:

- (a) The results of the service will affect the accounting records, internal controls over financial reporting, or the financial statements on which the firm will express an opinion;
 - (b) In the course of the audit of those financial statements, the results of the service will be subject to audit procedures; and
 - (c) When making an audit judgment, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm in the course of providing the service.
10. The IESBA is conducting a project on the definition of a public interest entity (PIE). What matters should the IESBA be considering in relation to the definition of PIE?

Roundtable Feedback - NAS



Break

Fees provisions of the Code

Ian McPhee, AO PSM
IESBA Board Member



Current Fee provisions in APES 110

- Can create self-interest threats, especially when fees:
 - are from clients referred from one source and are a large proportion of total fees
 - remain unpaid/overdue
 - from a PIE client (including related entities) represent 15% of total fees received by a firm for two consecutive years

Referrals and Commissions

- **Prohibited** when connected to an **Assurance Engagement**
- If received for other engagements, the Member must inform the client in writing of:
 - the existence of the arrangement
 - the identify of the other party or parties
 - the method of calculation accruing directly or indirectly to the Member

Current Contingent Fee provisions in APES 110

Contingent Fees are **prohibited**:

- for **Audit Engagements**; and
- in circumstances described in:
 - APES 215 *Forensic Accounting Services*
 - APES 225 *Valuation Services*
 - APES 330 *Insolvency Services*
 - APES 345 *Reporting on Prospective Financial Information Prepared in connection with a Public Document*
 - APES 350 *Participation by Members in Public Practice in Due Diligence Committees in connection with a Public Document*

Restrictions on charging contingent fees for **NAS** provided to an **Audit Client**.

Overview of IESBA's Exposure Draft *Proposed Revisions to the Fee-related Provisions of the Code*

Background for Fee-related Proposals

- Responsive to fee-related matters raised by the regulatory community and Public Interest Oversight Board
- Not attempting to change the client-payer business model
- Proposals to identify and address threats to independence that arise, especially self-interest threats
- Proposals are not attempting to regulate level of fees – this is a business decision

Key Proposals in Fees ED

- Audit fee should not be influenced by provision of services other than audit
- For PIEs, firm to cease to act as auditor if fee dependency on audit client continues beyond a specified period
- Communication of fee-related information to TCWG and to the public
- Enhanced guidance for identifying, evaluating and addressing threats created by fees



Self-interest Threats Created by Fees

- Proposal recognises that threats to independence are created when fees are negotiated with/paid by the audit client

410.4 A1 When fees are negotiated with and paid by the audit client, this creates a self-interest threat and might create an intimidation threat to independence.

- Requirement for level of threats to be evaluated before accepting any engagement for an audit client and re-evaluated if circumstances change (see R410.4)

Fees for Services other than Audit

- Requirement for audit fee to be standalone (i.e., no discounts on audit fee if client agrees to other services, other than through operational cost savings – R410.6)
- Guidance for firms to evaluate and address the threats to independence created when a large proportion of fees (to firm or network firms) relates to services other than audit (for client and related entities) [para. 410.10 A1]

Fee Dependency (for PIEs)

- Threshold for fee dependency (for PIEs) remain at **15%** – including fees paid by related entities
- Perform a pre-issuance review on 2nd year audit work by a member from outside the firm for fee dependency
- Post-issuance review no longer considered a safeguard
- In the case of joint audits, a pre-issuance review is not required where **both firms** perform sufficient work to take full responsibility for the audit opinion, and only one exceeds the 15% threshold

Fee Dependency (for PIEs)

Fee dependency provisions revised for PIE audit clients

- Earlier disclosure to TCWG
- Public disclosure if fee dependency “significant”
- Strengthen safeguards

Fee dependency should not continue indefinitely

- **Firm to exit after 5 consecutive years**
- If there is a public interest reason to continue (or if required by law or regulation); OK if certain conditions met



Fee Dependency (for non-PIEs)

- If total fees exceed **30%** of firm's total fee income for each of 5 consecutive years, determine and apply safeguard ~~[proposed para. R410.14]~~:
 - (a) pre-issuance review of 5th year's financial statements, or
 - (b) post-issuance review of 5th year's work by a professional body or external professional accountant
- If total fees continue to exceed 30% of firm's total fee income beyond 5 consecutive years, make determination and take the action each year [proposed para R410.15]
- No exit clause; no requirement to communicate with TCWG; no requirement that the pre-issuance review be equivalent to an EQCR

New threshold

Enhanced Transparency (for PIEs)

- Greater transparency can serve to better inform views and decisions of stakeholders
- Firms to disclose certain fee-related matters through:
 - Enhanced communication with TCWG
 - Public disclosure (including in audit report), if entity has not already disclosed in financial statements by law or regulation
- Close coordination with IAASB



Communication with TCWG about Fees

- For audit clients that are PIEs, firms required to communicate with TCWG about:
 - Fees for audit and services other than audit provided by the firm or network firms to the audit client (and related entities controlled by the client)
 - Assessment of the level of the threats to independence created and safeguards to reduce threats to an acceptable level

Public Disclosure about Fees

- Proposals require public disclosure (by client in financial statements, annual report, proxy statement; or by auditor)
 - Fee for the audit of the financial statements
 - Payed/Payable to firm/network firms
 - Actual/Estimated to component auditors
 - Fees for services other than audit provided to the client (and controlled related entities) by the firm or a network firm
 - If applicable, fee dependency information
- Disclosure requirements are optional for review clients

Roundtable Discussions – Fees

Channa Wijesinghe
Chief Executive Officer



Matters for discussion

1. What do you think 'influence' means in relation to an audit fee being influenced by the fees relating to other services provided? What are the factors of influence? How would this requirement be monitored or enforced based on the current language used?
2. There is a new requirement to evaluate fees before accepting an engagement and also to re-evaluate during the engagement if the circumstances change? Should these be two separate requirements? What circumstances would create the need to re-evaluate threats?
3. For a joint audit, will each individual auditor always be able to take full responsibility for the signing of the audit report?

Matters for discussion

4. Do you agree with the 30% threshold for firms to address threats created by fee dependency on a non-PIE audit client? Is this an appropriate level?
5. The proposals suggest the auditor could disclose information about audit fees in the audit report, if the client does not make these disclosures? Is this an appropriate place for disclosure? What other ways are there to achieve transparency of fee-related information for PIE audit clients?
6. The IESBA is seeking feedback as to whether there are local laws, such as anti-trust or anti-competition laws, that would impact the adoption of these requirements. What laws and regulations in Australia would need to be considered by Members. Would these impact the adoption of these provisions?

Matters for discussion

7. In light of the commentary in Australia around all parties in the financial reporting supply chain being responsible for audit quality, should the Code include requirements or application material for Members in Business on ensuring the independence of auditors?
8. The IESBA have included a list of factors (including conditions, policies and procedures) relevant to evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client in paragraph 410.4 A2. Are there any other factors that should be included on this list? For example, should one of the factors be the existence of an independent committee of the firm advising on governance matters that might impact a firm's independence?

Roundtable Feedback – Fees



Closing remarks

Nancy Milne OAM
Chairman



Further Information

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This set of PowerPoint slides has been developed by APESB Technical Staff using some of the resources developed by the IESBA Technical Staff for National Standards Setters on the exposures drafts relating to the Non-Assurance Services and fees provisions of the *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

These slides provide only an *overview* of the proposals in the exposure drafts and do not purport to present all the detailed changes. The slides should be read in conjunction with the proposed new Code, the text of which alone is authoritative. The slides do not form part of the Code.

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