

Summary of key proposals in the IESBA Exposure Drafts on Non-Assurance Services, Fees and the Objectivity of the Engagement Quality Reviewer

This document provides a summary of the proposals in the following Exposure Drafts issued by the International Ethics Standards Board for Accountants (IESBA):

- [Proposed Revisions to the Non-Assurance Services Provisions of the Code](#) (the Non-Assurance Services ED) – comments due 4 May 2020;
- [Proposed Revisions to the Fee-related Provisions of the Code](#) (the Fees ED) – comments due 4 May 2020; and
- [Proposed Revision to the Code Addressing the Objectivity of Engagement Quality Reviewers](#) (the Objectivity and EQR ED) – comments due 16 March 2020.

The explanatory memorandum in each exposure draft provides further details on the background to the proposals and the rationale for the proposals.

Non-assurance services ED

The proposals in this exposure draft will apply stricter prohibitions as to the types of non-assurance services that can be provided to a public interest entity (PIE) audit client. NAS provisions for PIEs will be different from non-PIEs – which is a deliberate position.

The proposed amendments include:

For PIE audit clients

- A new prohibition on firms to disallow the provision of non-assurance services to PIE audit clients if it creates a self-review threat (meaning there is a risk that the firms will review the results of previous judgements they made as part of the non-assurance service and on which they will rely when forming their audit opinions);
- an explicit requirement for the auditor to gain concurrence from those charged with governance of the client before providing non-assurance services;
- the removal of the materiality qualifier/threshold (meaning that more types of non-assurance services will not be able to be performed by the auditor of a PIE) for the following non-assurance services:
 - valuation services
 - calculating current and deferred tax liabilities (or assets)
 - tax planning or other tax advisory services
 - valuation for taxation services
 - advocacy role in disputes or litigation for tax or for other matters
 - corporate finance services
 - internal audit services
 - IT system services
- a new prohibition on the marketing, planning, or opining on a tax treatment initially recommended by the firm, and a significant purpose of which is tax avoidance, unless that treatment is most likely to prevail in tax law and regulation.
- a new prohibition on acting as an expert witness in a dispute involving a PIE audit client unless appointed by a tribunal or court.

For all audit clients

- Prohibition on assuming management responsibilities will move to Section 400 (so no longer specific to just NAS).
- an explicit requirement for the auditor to communicate with those charged with governance of the client about the provision of non-assurance services; and
- the removal of the materiality qualifier/threshold for tax planning and advisory services and corporate finance services when advice is dependent on particular accounting treatment or presentation that the audit team has doubts about.

Fees ED

The proposals in this project will consider how fee-related provisions impact perceived auditor independence. The proposals are not attempting to regulate fees or change the client-payer business model.

The proposed amendments include:

For PIE audit clients

- Maintains the fee dependency threshold of 15% assessed over two consecutive years;
- A new requirement for a firm to cease to be the auditor if fee dependency continues for five consecutive years unless they receive authority from a regulatory body or a pre-issuance review is conducted by an independent accountant
- A new requirement to communicate with those charged with governance on fee dependency, and whether the firm should continue as an auditor.
- A new requirement for firms to ensure audit fee information is publicly available – either made available by the client; otherwise, the auditor needs to disclose the information. The fee information needs to include fees paid or payable to the firm and network firms, fees for other services, and any fee dependency issues.

For non-PIE audit clients

- New requirements relating to fee dependency, which is assessed over five consecutive years and should be no more than 30% of the total fees received by the firm.

For all audit clients

- A new requirement to determine threats to independence created by the fees proposed prior to accepting an audit engagement and to re-evaluate through the provision of the audit service.
- A new requirement for firms not to be influenced by the provision of other services to an audit client.
- A new requirement to communicate with those charged with governance on the level of fees for audits and reviews, the analysis, and the steps undertaken to ensure the level of fees does not impact threats being at an acceptable level.
- A new requirement to communicate with those charged with governance on the impact of fees received for other services on ensuring threats are at an acceptable level for the audit engagement.

Objectivity and EQR ED

The proposals in the Exposure Draft will provide explicit guidance on the application of the conceptual framework to address the topic of the objectivity of an engagement quality reviewer (EQR). The proposals aim to align to requirements and guidance that will be issued in the future by the International Auditing and Assurance Standards Board (IAASB) in *International Standard on Quality Management (ISQM) 2, Engagement Quality Reviews (ISQM 2)*.

The proposals would see the inclusion of additional guidance in Section 120 *The Conceptual Framework* of the Code that is specific to EQRs. This guidance would

- Explain the role of engagement quality reviews and the need to perform the reviews in line with ISQM 1 and ISQM 2;
- Explains the different types of threat to compliance with the fundamental principle of objectivity that might be created in circumstances where an individual is being considered for appointment as an EQR for a given engagement;
- Sets out factors to consider in evaluating the level of the identified threats; and
- Suggests actions that might be safeguards to address the threats.

The explanatory memorandum also discusses whether the Code should prescribe a cooling-off period specifically to address the situation where an individual is appointed to an EQR role after having served on the engagement. The IESBA believes this should be determined by using the conceptual framework and suggests that the IAASB should be responsible for setting a specified cooling-off period if they believed it was necessary.