

**Basis for Conclusions**  
**Prepared by the Staff of the IESBA**  
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*International Ethics Standards Board for  
Accountants®*

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**Changes to the Code  
Addressing Certain Non-  
Assurance Services  
Provisions for Audit and  
Assurance Clients**

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The objective of the IESBA is to serve the public interest by setting high-quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, including auditor independence requirements, through the development of a robust, internationally appropriate code of ethics.

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## BASIS FOR CONCLUSIONS:

### CHANGES TO THE CODE ADDRESSING CERTAIN NON-ASSURANCE SERVICES PROVISIONS FOR AUDIT AND ASSURANCE CLIENTS

This Basis for Conclusions has been prepared by staff of the International Ethics Standards Board for Accountants (IESBA). It relates to, but does not form part of, the changes to the *Code of Ethics for Professional Accountants* (the Code) related to certain provisions addressing non-assurance services (NAS) for audit and assurance clients. These changes were approved by the IESBA in January 2015 with the affirmative votes of 18 out of 18 IESBA members present.

#### Background

1. In the case of audit engagements, it is in the public interest and required by the Code that members of audit teams, firms and network firms remain independent in mind and appearance of audit clients. This allows the auditor to act with integrity, and exercise objectivity and professional skepticism. In addition to the audit, firms have traditionally provided a range of NAS to their audit clients that are consistent with their skills and expertise. The performance of such services may create threats to the independence of the firm or members of the audit team. Such threats include self-review, self-interest and advocacy threats. Paragraphs 290.154 to 290.216<sup>1</sup> of the subsection entitled *Provision of Non-assurance Services to an Audit Client* of the Code establish requirements for, and provide guidance to, professional accountants in public practice who perform NAS for audit clients.
2. In light of developments in the external environment, the IESBA added in May 2012 a new work stream to its work program to review the NAS provisions in the Code to ensure that they continue to support a rigorous approach to independence for assurance services, particularly audits of financial statements. Prior to approving the project, the IESBA performed a benchmarking survey which sought to understand the extent to which G-20 countries and a select number of other jurisdictions were more restrictive in their national ethical requirements than the Code with respect to certain types of NAS. The main results of the benchmarking exercise<sup>2</sup> indicated that the jurisdictions surveyed were in line with the Code for most of the Code's provisions. While some specific provisions concerning NAS in some of the jurisdictions did vary in their alignment with the Code, there was no evidence from the benchmarking exercise that the Code's provisions were at significant variance from those of most or all of these jurisdictions. In light of this, the IESBA agreed that the Code's provisions concerning NAS were still robust in protecting the public interest.
3. The IESBA nevertheless did agree that varying views exist on what constitutes (a) a management responsibility, and (b) routine or mechanical bookkeeping services. Further, these two topics were included in the October 2011 recommendations of the IESBA Small- and Medium-Sized Entities (SME)/Small- and Medium-Sized Practices (SMP) Working Group. These recommendations called for the IESBA to consider providing enhanced guidance to professional accountants in these

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<sup>1</sup> Unless otherwise stated, paragraph numbers refer to the 2014 IESBA Handbook of the *Code of Ethics for Professional Accountants*.

<sup>2</sup> The [analysis](#) of the survey responses was presented at the June 2013 IESBA meeting.

areas.<sup>3</sup> Given this context, the IESBA determined that it would be in the public interest to enhance the clarity of the guidance on these topics in the Code to promote consistency of application of the relevant provisions of the Code.

4. From the benchmarking exercise, the IESBA also noted that a significant number of jurisdictions did not have emergency exception provisions for bookkeeping or taxation services. Additionally, in its May 2013 response to the IESBA's 2014-2016 strategy review survey, the International Organization of Securities Commissions (IOSCO) had recommended that the IESBA consider removing the exemption under the Code for providing accounting and bookkeeping services and preparation of tax calculations to public interest entity (PIE) audit clients in emergency or other unusual situations. Given these inputs, the IESBA agreed to reconsider the need for emergency exception provisions in the Code regarding those services with the aim of maintaining the robustness of the standards within the Code.
5. The IESBA therefore approved in September 2013 a project with the following objectives:
  - To examine the “emergency exception” provisions related to bookkeeping and taxation services provided to PIE audit clients for appropriateness within the Code;
  - To clarify the NAS provisions in the Code concerning management responsibilities;
  - To clarify the phrase “routine or mechanical” as it pertains to the provision of accounting and bookkeeping services; and
  - To make any necessary conforming changes to Section 291 addressing the provision of NAS to an assurance client.
6. The IESBA published its proposals in an exposure draft (ED) in May 2014. The comment period for the ED closed on August 18, 2014. Fifty-nine comment letters were received from various respondents, including regulators and audit oversight bodies, national standard setters, IFAC member bodies, other professional bodies, and firms. This Basis for Conclusions explains the more significant issues raised by respondents to the ED, and how the IESBA has addressed them.
7. The IESBA has also discussed this project with its Consultative Advisory Group (CAG) on three separate occasions: at the project commencement stage; prior to the issuance of the ED; and prior to the finalization of the pronouncement.

## **Emergency Exception Provisions**

8. The ED proposed the withdrawal of the provisions in the Code that permit an auditor to perform certain bookkeeping and taxation services for PIE audit clients not normally permitted by the Code in the case of an emergency or other unusual situations when it is impractical for the audit client to make other arrangements, and subject to specific safeguards being implemented (paragraphs 290.171 and 290.183).

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<sup>3</sup> The October 2011 report of the IESBA SME/SMP Working Group can be accessed [here](#). The Working Group was established to identify and advise the IESBA on the unique and challenging issues professional accountants in SMEs and SMPs face when complying with the Code.

9. In exposing this proposal, the IESBA came to the following conclusions:
  - (a) A situation in which an emergency exception provision is allowable should be so rare and extraordinary that it should not be addressed by the Code, nor should the determination to use the provision be made by the auditor and the client; and
  - (b) Removing the emergency exception provisions would strengthen the Code by removing the potential for misuse of the provisions due to subjective terms such as “emergency” and “unusual situations” included in the extant guidance.
10. While the majority of the respondents expressed support for the proposal, some expressed opposition to, or did not express support for, it. Additionally, some respondents provided examples of what they perceived to be emergency situations to support their reasoning for opposing the proposal or their request to retain the provisions but with further guidance. Some of the situations the latter respondents highlighted pertained to specific challenges smaller PIEs face. The IESBA noted that these examples suggested that the current emergency exception provisions may have been interpreted or implemented out of a matter of convenience, which was not the intent of the Code.
11. Some respondents requested more specific guidance concerning emergency situations whereas others requested more guidance concerning the emergency exception provisions. Some respondents also requested various changes to paragraph 100.11. This provision guides a professional accountant to consult with a member body or a relevant regulator in an unusual circumstance in which the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest.

### **IESBA Decisions**

12. The IESBA noted no examples of emergencies or unusual situations provided by respondents that would warrant retention of the emergency exception provisions. For instance, regardless of the size of the audit client or the firm, a situation in which the client has an affiliate in a remote location should not be considered, by itself, an emergency but a normal business situation. The IESBA further agreed that a situation where an emergency provision would be permissible should be so rare that it should not be addressed by the Code. Instead, in that situation, the professional accountant should be guided by paragraph 100.11 of the Code.
13. With respect to the suggestions for various changes to paragraph 100.11 from some of the respondents, the IESBA determined that these would be beyond the scope of the project.
14. Given overall broad support for the ED proposal from the respondents, the IESBA determined to withdraw the emergency exception provisions from the Code.

### **Management Responsibilities – Significant Decisions**

15. The ED proposed the deletion of the term “significant” from the following sentence in proposed revised paragraph 290.159:

Management responsibilities involve controlling, leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical, technological and intangible resources.

16. While the majority of the respondents expressed support for the proposal, some respondents expressed concern about it for the following reasons:
- (a) The belief that not all the decisions regarding the acquisition, deployment and control of human, financial, physical, technological and intangible resources are a management responsibility – subjectivity is removed; and
  - (b) The removal of the phrase may have an unintended consequence of prohibiting the auditor from using professional judgment and making decisions related to the task of the auditor or the performance of permitted NAS.

### **IESBA Decisions**

17. The IESBA believes that all final decisions made on behalf of the audit client are management responsibilities, regardless of the significance. Thus, examples that some respondents provided, such as executing insignificant transactions and approval of immaterial expenses, are ultimately the responsibility of management.
18. However, if the auditor was engaged to perform a review of expenses and was given a set of parameters that were the decision of client management (for example, amount threshold), then the service may be permissible.
19. The IESBA therefore reaffirmed its decision to delete the word “significant” from that provision (paragraph 290.159 in the final pronouncement).

### **Examples of Management Responsibilities**

20. The ED proposed the removal of the first sentence of paragraph 290.160 addressing examples of activities that would be considered a management responsibility. The other proposals within the paragraph included the removal of the word “generally” in the lead-in to the second sentence and certain refinements to the examples to make them more specific.
21. While the majority of the respondents supported the proposed changes, some respondents raised a number of concerns including the following:
- The removal of the lead-in to the second sentence would create the appearance that an exhaustive list has been created and contradicts the principles-based approach of the Code.
  - Removal of the term “generally” from the lead-in would create a black list of prohibited services. Doing so would also remove judgment in evaluating whether an activity is a management responsibility.
  - The term “supervising” as proposed within the examples would be confusing.
22. In its consultations with the CAG, the IESBA also received advice from some CAG Representatives for the inclusion of the term “monitoring” in the last bullet of proposed revised paragraph 290.160, which states:
- Taking responsibility for designing, implementing or maintaining internal controls.
23. A number of CAG Representatives also suggested that an additional example pertaining to bookkeeping be included in the list of examples of activities that would be considered a management responsibility in paragraph 290.160.

## IESBA Decisions

24. The IESBA concluded that the term “generally” should not be reinstated in the paragraph, as it had discussed at its meeting where it approved the ED. The IESBA had then carefully examined all of the examples and concluded that they were definite examples of management responsibilities. However, the IESBA did agree that the determination of whether an activity is a management responsibility is one of professional judgment. Thus, after consideration of the comments on the ED, the IESBA has reinstated the first sentence of paragraph 290.160. This sentence will also allow the reader to clearly conclude that the list of examples is not exhaustive. See paragraph 290.160 in the final pronouncement.
25. With respect to the use of the term “supervising” in the examples, the IESBA concluded that this term can be interpreted in starkly different ways. For example, it can be interpreted as an all-encompassing action that would include day to day supervising and conducting a performance review, including approving salary adjustments. The term could also be interpreted as requesting schedules and statements from an employee of the client in the normal course of an audit. Due to the wide range of possible meanings of the term, and the risk of being interpreted as a broader prohibition, the IESBA agreed to delete “supervising” from the third bullet and to delete the fifth bullet entirely, as had been proposed to be added to paragraph 290.160 in the ED.
26. The IESBA noted that it had previously considered the term “monitoring” and determined that the monitoring of controls was already addressed in detail in the provisions of the Code pertaining to internal audit services. However, the IESBA did agree that the overall responsibility for monitoring internal controls is a management responsibility. Given that the bullet point begins by stating “Taking responsibility for...”, the IESBA determined that it would be appropriate to include “monitoring” as follows:

Taking responsibility for designing, implementing, monitoring or maintaining internal controls.
27. The IESBA considered the suggestion from a number of CAG Representatives to include a reference regarding bookkeeping in the list of examples of management responsibility in paragraph 290.160. As explained in paragraphs 20 and 24 above, the IESBA had decided to delete the term “generally” in paragraph 290.160. This was in response to a suggestion received from the CAG, and substantial support from respondents to the ED. As a result, all activities listed as examples in paragraph 290.160 would need to be activities that are definitively management responsibilities, and never permissible under the Code. The IESBA determined that to make any reference regarding bookkeeping in the list of examples would likely create confusion, as the preparation of accounting records and financial statements for an audit client is permissible in the Code, though under very limited circumstances for PIEs and subject to strict conditions for non-PIEs.
28. The IESBA remains satisfied that the requirements and guidance on bookkeeping are already prominently, and adequately, dealt with in the Code as a subsection on its own under *Preparing Accounting Records and Financial Statements*. These include related guidance on management responsibilities.
29. Aside from the changes noted above and minor editorial refinements to the examples, the IESBA determined that no further changes would be necessary based on the comments received, given broad support from respondents for the changes proposed in the ED.

## Management Responsibilities – Prerequisite in Paragraph 290.163

30. The ED proposed a prerequisite in ensuring that client management makes all judgments and decisions that are the proper responsibility of management. The proposal was aimed at better ensuring that the auditor does not assume a management responsibility. Specifically, it stated the following:

When providing non-assurance services to an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the responsibility of management. This includes ensuring that the client's management:

- Designates an individual, preferably within senior management, who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. A suitable individual should understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
- Provides oversight of the services and evaluates the adequacy of the results of the services performed for the client's purpose; and
- Accepts responsibility for the actions to be taken arising from the results of the services.

31. While the majority of the respondents expressed support for the prerequisite, some respondents expressed opposition to the change. While reasons from the latter respondents varied, it appeared that implementation of the prerequisite was a particular concern. Specifically, the concerns from these respondents included the following:

- (a) Concerns with the requirement to find an individual within the client with suitable skill, knowledge and experience to provide oversight of the services.
- (b) Concerns that the professional accountant must ensure the client fulfills the obligations of the prerequisite.
- (c) Potential challenges for SMPs and SME clients.
- (d) Clients resorting to service providers not bound by the Code.

## IESBA Decisions

32. The IESBA reaffirmed that the proposed changes are aimed at:
- Providing *additional guidance and clarification* regarding what constitutes management responsibility, including *enhanced* guidance regarding how the auditor can better satisfy itself that client management will make all judgments and decisions that are the responsibility of management, when the auditor provides NAS to an audit client;
  - Making the Code more robust; and
  - Enhancing auditor independence in the public interest.
33. The IESBA determined on these grounds to include the prerequisite in paragraph 290.162 in the final pronouncement.
34. The IESBA further determined that the wording of the prerequisite in paragraph 290.162 and the required steps therein were more robust and comprehensive than the guidance in the extant

paragraph 290.163. The phrase "...is further reduced when the firm gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues" in the extant paragraph 290.163 may seem as if there is a choice in whether the client has such opportunity. An essential safeguard is that the firm shall be satisfied that client management makes all judgments and decisions that are the responsibility of management. The IESBA believes it is necessary to strengthen the Code's requirement for the avoidance of doubt. Accordingly, the IESBA has replaced the aforementioned guidance in extant paragraph 290.163 with the new prerequisite in paragraph 290.162, which sets out a clearer requirement and represents a much more proactive approach in obtaining an informed decision concerning the NAS by client management.

### **Routine or Mechanical**

35. The ED proposed clarifications to the phrase "routine or mechanical" as used in the subsection *Preparing Accounting Records and Financial Statements* as noted with the addition of the following sentence:

Services that are routine or mechanical in nature require little to no professional judgment from the professional accountant.

36. In addition, clarifying refinements were made to paragraphs 290.164 and 290.166. Also, additional examples of routine or mechanical services were added to paragraph 290.168.
37. The majority of the respondents agreed that the proposed guidance on "routine or mechanical" bookkeeping services clarified the term. Almost all of the comments provided pertained to the examples of services that are "routine or mechanical."

### **IESBA Decisions**

38. In addition to the changes noted in the ED, the IESBA made editorial changes to the examples of activities that are routine or mechanical based on respondents' comments.
39. The IESBA also noted that the ED's proposed reference within proposed revised paragraph 290.168 to the prerequisite in proposed revised paragraph 290.163 noted above was not consistent with the drafting for other NAS within the Code. Thus, a specific reference to the prerequisite within the guidance for any specific NAS is not necessary. Accordingly, the IESBA determined to delete the reference that was proposed in the ED within proposed revised paragraph 290.168.
40. Overall, the IESBA agreed that the proposed editorial changes to the guidance do clarify the phrase "routine or mechanical" as noted in the majority of the responses to the ED. See paragraphs 290.164 – 290.168 in the final pronouncement.

### **Administrative Services**

41. In the ED, the IESBA had proposed to separate the guidance addressing administrative services to enable these to be demarcated as a specific NAS, and not have them included with management responsibilities. During the IESBA's deliberations, a view was expressed that the provision of administrative services, as addressed in paragraph 290.166 of the ED, should not be subject to the prerequisite of proposed revised paragraph 290.163.

42. The Task Force sought the CAG's views as to whether the performance of administrative services should be subject to this prerequisite. Many CAG Representatives expressed support for the notion that administrative services are a separate NAS and should be subject to the prerequisite. A CAG Representative noted that if a service is performed outside of the assurance service engagement, it must be an NAS.

### **IESBA Decisions**

43. The IESBA reaffirmed that administrative services are NAS subject to the requirements of paragraph 290.163 of the extant Code and should be subject to the requirements of the revised paragraph 290.163. The IESBA based its view on:
- (a) The fact that any service performed outside of the assurance function is by definition an NAS, thus requiring client management to accept responsibility;
  - (b) The supportive feedback of the CAG; and
  - (c) The support noted in the comment letters to the ED, which stated that “[t]he IESBA believes that the Code would be clearer if the guidance addressing administrative services, which are an example of NAS ....”
44. The IESBA, however, determined that no specific reference to revised paragraph 290.163 would be needed, consistent with the drafting of guidance pertaining to other NAS within the Code.

### **Section 291**

45. The ED proposed changes to Section 291 of the Code that were conforming in nature based on the changes proposed in Section 290. Most of the comments received from respondents pertaining to Section 291 were in line with the corresponding comments on Section 290. Accordingly, the IESBA made corresponding changes to Section 291 in the final pronouncement.
46. The IESBA, however, agreed to delete the guidance concerning administrative services that was proposed in paragraph 291.150 of the ED, as NAS as addressed in Section 291 do not address specific services as is the case in Section 290. Accordingly, the IESBA agreed to the deletion for consistency purposes.

### **Broader Issues within NAS**

47. The IESBA received a number of comments in response to the ED that pertained to matters outside of the scope of the three specific issues addressed by the project. Many of the comments concern the use of threats and safeguards approach, in particular. Consistent with the IESBA's Strategy and Work Plan 2014-2018, the IESBA approved in January 2015 a project pertaining to the topic of safeguards. This new project will review the safeguards in the Code, especially as they apply to NAS.

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**International  
Ethics Standards  
Board for Accountants®**

529 Fifth Avenue, New York, NY 10017  
T + 1 (212) 286-9344 F +1 (212) 286-9570  
[www.ethicsboard.org](http://www.ethicsboard.org)