

# Communication With TCWG Prior To Provision Of Non-Assurance Services

Possible Approaches To Comply With Requirements



- EP 100 (Revised on 7 September 2022), effective 15 December 2022, is aimed at improving firms' communication with those charged with governance (TCWG), which enhances non-assurance services transparency that helps TCWG assess the firm's independence.
- TCWG of large and complex PIE groups are best placed to determine how to operationalise the Requirement, taking into account the spirit within the Code and IESBA's basis for conclusions.
- This article clarifies and sets out the ISCA Ethics Committee's views on the possible approaches to comply with the Requirement.

## ISCA'S CODE OF PROFESSIONAL CONDUCT AND ETHICS (EP 100 or the Code) is modelled

after the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA). EP 100 encourages regular communication between an audit firm (the firm) and those charged with governance (TCWG) of the audit client regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence. Such communication aids TCWG in their evaluation of the firm's independence, after considering the firm's judgements in identifying and evaluating threats to independence and how the firm has addressed such threats through the use of safeguards or actions taken where appropriate.

When the audit client is a public interest entity (PIE), stakeholders have heightened expectations regarding the firm's independence.

Hence, EP 100 (Revised on 7 September 2022), effective 15 December 2022, introduces the requirement for firms with PIE audit clients to obtain concurrence of TCWG prior to the provision of non-assurance services (NAS) by the firm or a network firm to that PIE audit client, its downstream controlled entities and any entity that controls that PIE directly or indirectly (the Requirement).

This article clarifies and sets out the ISCA Ethics Committee's views on the possible approaches to comply with the Requirement.

## COMPLIANCE WITH THE REQUIREMENT

Recognising that PIEs have different corporate and governance structures, the Code provides the firm and TCWG flexibility to agree on a process which addresses when and with whom, from within TCWG, the firm must communicate to facilitate compliance with the Requirement. This enables TCWG to put in place a process that is



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<sup>1</sup> Paragraphs 600.20 A1 and 600.20 A2 of EP 100 (Revised on 7 September 2022) and Question 19 of IESBA Staff Questions & Answers: Revised Non-Assurance Services Provisions of the Code (July 2022); <https://www.ethicsboard.org/publications/iesba-staff-qa-revised-non-assurance-services-provisions-code>

<sup>2</sup> Paragraph 67 of IESBA's Basis for conclusions: Revisions to the Non-Assurance Services Provisions of the Code (April 2021); <https://www.ethicsboard.org/publications/final-pronouncement-revisions-non-assurance-service-provisions-code>

most suitable for their specific circumstances.

For example, the process agreed by the firm and TCWG of the PIE audit client might<sup>1</sup>:

- identify the entities within the corporate structure of which the PIE audit client is a part of, that might create threats to the firm's independence to which the process would apply;
- identify services that may be provided without specific approval each time, if TCWG agree as a general policy that such services would not create threats to the firm's independence or, if any

such threats are created, they would be at an acceptable level. For example, a policy might specify a list of services that the firm and TCWG have previously determined, which will not impair the firm's independence.

IESBA considered whether there should be any constraints on the matters that may be addressed in any process agreed by a firm and TCWG of a PIE audit client and concluded that "it was for TCWG to determine what was acceptable to enable them to discharge their governance responsibilities"<sup>2</sup>.

## POSSIBLE APPROACHES

The flexibility for TCWG to establish a bespoke process to accommodate different corporate structures is important to ensure that the process operates efficiently and effectively to discharge TCWG's governance responsibilities and is likely to benefit TCWG of large and complex groups:

### 1) Investment companies/funds that are not actively involved in the management of the controlling PIE investee companies

Where the investment portfolio of the investment company/fund is diverse and autonomy is given to established portfolio PIEs to operate under the direction of their own boards and executive management, reporting the controlling parent's NAS to TCWG of the PIE audit client may not necessarily provide useful or relevant information to them for considering whether the auditor's independence is maintained at the PIE level.

In this scenario, the relevant factors are:

- the PIEs are independently managed by their respective boards with typically no representation (non-executive directors in some cases) on the PIE board by the controlling parent;
- the controlling parent of the PIE does not direct the PIE's business decisions or operations or direct the way in which audit and non-audit appointments are made in those PIEs;
- TCWG at the PIE independently review and conclude on the independence of the PIE auditor.

Bearing the above in mind, a practical framework that could be adopted by TCWG of the PIE is to have a general policy whereby no concurrence by them is required for NAS being provided by the firm to the PIE's controlling parent, provided that the NAS:

- are solely for the purposes of the controlling parent and not for the PIE or its controlled entities;
- will have no impact on the financial statements or internal controls of the PIE and its controlled entities (that is, no self-review threat created); and

TCWG of large and complex PIE groups need to take into account the spirit within the Code and IESBA's basis for conclusions.



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- will not create any other threats to the auditor's independence as auditor of the PIE and its controlled entities (or any such threat will be reduced to an acceptable level or the circumstance creating the threat will be eliminated by the auditor).

### 2) Investment companies/funds that are actively involved in the management of the controlling PIE investee companies

In contrast to the above, some investment

companies/funds (for example, private equity funds) are more actively involved in the management of their investee companies. Where the types of NAS provided to the private equity funds are unlikely to create a threat to the auditor's independence of any controlled PIE investee companies (for example, tax return preparation and administrative services), TCWG of the respective PIE investee companies may wish to consider a blanket pre-approval of such services, which eliminates the need for specific concurrence on a case-by-case basis.

EP 100 provides the firm and TCWG flexibility to agree on a process which addresses when and with whom, from within TCWG, the firm must communicate to facilitate compliance.

### 3) Corporate PIE parent controlling PIE subsidiaries audited by the same firm

Possible options are:

- TCWG of the controlling parent operates a group concurrence policy (with TCWG of the controlled PIEs in agreement that the concurrence requirement can be considered and made at the parent level);
- Each PIE operates its own process as determined by TCWG:
  - TCWG of **parent** PIE decide there is no need for their concurrence on NAS provided to subsidiary PIE(s) and its controlled entities, **if** concurrence has been given by TCWG of the subsidiary PIE for services to the subsidiary PIE and its controlled entities;
  - TCWG of **subsidiary** PIE(s) decide there is no need for their concurrence on NAS provided to the parent PIE. This is on the basis that the NAS will not have any impact on the financial statements or internal controls of the subsidiary PIE and its controlled entities; nor will it create any threats to the independence of the subsidiary PIE auditor and its controlled entities.

Both options avoid duplication in what is otherwise a fully-controlled corporate group.

In addition to the above, TCWG could also decide to include a list of pre-approved services requiring no specific concurrence.

## CONCLUSION

As there is no one-size-fits-all approach, TCWG of large and complex PIE groups are best placed to determine how to operationalise the Requirement, taking into account the spirit within the Code and IESBA's basis for conclusions.

Overall, the Requirement (along with other new requirements in the Code) is aimed at improving firms' communication with TCWG, which enhances NAS transparency that helps TCWG assess the firm's independence. It does not replace the existing requirement for the firm to ensure that its independence is maintained when providing NAS (that is, even in some cases where TCWG's concurrence may not be required, the auditor's and TCWG's assessment of permissibility of NAS is still required). ISCA

This article was written by the ISCA Ethics Committee.



This article aims to raise awareness and provide clarification on the new requirement of the Code relating to audit firm's communication with TCWG about NAS.