

Overview of IESBA exposure draft relating to non-assurance services

The Institute has issued in May an invitation to comment on the International Ethics Standards Board for Accountant's exposure draft, *Proposed Changes to Certain Provisions of the Code of Ethics in Addressing Non-Assurance Services for Audit Clients*. This article provides an overview of the exposure draft.

Accounting firms have traditionally provided a range of non-assurance services to their audit clients that are consistent with their expertise. Such services may include preparing accounting records and financial statements for an audit client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level.

The IESBA noted that varying views exist on what constitutes (a) a management responsibility, and (b) routine or mechanical bookkeeping services. These two topics were included in the recommendations of the IESBA Small- and Medium-Sized Entities/Small- and Medium-Sized Practices Working Group in respect of which the IESBA was asked to consider providing enhanced guidance to professional accountants. 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.

The IESBA proposals aimed to address the following:

Additional guidance on management responsibility

The proposed changes to management responsibilities provisions provide further guidance and clarification as to what constitutes a management responsibility (paragraphs 290.162-163). The proposal states that "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 time 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.

Additional guidance on preparation of accounting records and financial statements

The IESBA also proposes clarification to the phrase "routine or mechanical" as used in the subsection "preparing accounting records and financial statements." These clarifications include additional descriptive language further clarifying the meaning of the phrase "routine or mechanical." The changes also include additional examples of activities that are considered to be "routine or mechanical" (paragraphs 290.167-171).

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Emergency exception

The provisions in the code concerning bookkeeping and taxation services currently include provisions that permit the auditor to perform certain services for audit clients that are public interest entities 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 290.174 and 290.185-186).

The IESBA proposes to withdraw the emergency exception provisions related to bookkeeping and taxation services based on the following conclusions:

- A situation in which an emergency provision should be 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
- Removing the emergency 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.

The Institute's Ethics Committee will deliberate on the IESBA proposals and will be preparing a submission on the topic. The Institute welcomes comments on all matters addressed in the exposure draft. Please send them to Ambrose Wong, Associate Director of Standard Setting, at commentletters@hkcipa.org.hk by 25 July.

For further details, please refer to the invitation to comment at www.hkcipa.org.hk/en/standards-and-regulations/standards/code-of-ethics/exposure-drafts/.



This article is contributed by the Institute's Standard Setting Department.