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Submitted electronically

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Dear Stavros,

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

EFAA appreciates the opportunity to provide our comments to the IESBA Exposure Draft, [*Proposed Revisions to the Non-Assurance Services Provisions of the Code*](#). Our response has been prepared with input from our Assurance Expert Group.

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs. EFAA represents 12 national accounting, auditing and tax advisor organisations with more than 350,000 individual members.

GENERAL COMMENTS

EFAA appreciates the great effort taken to consider the potential impact on SMPs and their SME clients and welcomes the way the ED proposes differential treatment of Non-Assurance Services (NAS) provided to SMEs / non-PIEs from NAS provided to PIE clients since this helps ensure the scalability of the provisions. We also recognize that the project to define PIEs and Listed Entities will greatly impact this ED.

While we acknowledge the need for the NAS proposals to maintain public trust and confidence in the audit by addressing public perceptions about auditors' independence for larger clients we fear a disproportionate impact, in terms of additional costs, of the proposed changes on the smaller SMPs. We are also concerned that SMPs are currently overwhelmed with changes, not least the restructured Code taking effect, at a time when they are dealing with unprecedented challenges arising from the Covid-19. Accordingly, we urge the Board to defer further changes to the Code especially those, like NAS, which are not urgent. Finally, it is worth noting that presently many SMEs are fighting for survival and in desperate need of advice from SMPs on how to improve cash flow, gain access to finance etc. We would hope such access is not thwarted by these NAS proposals.

QUESTIONS IN ED

- 1. Do you support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14?**

We support in principle the proposal.

We note that the definition of a PIE will determine which entities are subject to this prohibition making it crucial that the IESBA gets the definition right.

- 2. Does the proposed application material in 600.11 A2 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? If not, what other factors should be considered?**

We believe the proposed application material is clear.

- 3. Is the proposed application material relating to providing advice and recommendations in proposed paragraph 600.12 A1, including with respect to tax advisory and tax planning in proposed paragraph 604.12 A2, sufficiently clear and appropriate, or is additional application material needed?**

We believe the proposed application material is clear.

We do, however, have some concerns. Paragraphs R604.4 and 604.12 A2 (c) include something along the lines of “has a basis in law that is likely to prevail.” We understand this to mean that such services are permissible under the Code whenever national law allows for it. If this is not the case then we wonder whether the wording could be clearer.

- 4. Having regard to the material in section I, D, “Project on Definitions of Listed Entity and PIE,” and the planned scope and approach set out in the [approved project proposal](#), please share your views about what you believe the IESBA should consider in undertaking its project to review the definition of a PIE.**

We recognize the importance of the project to align definitions.

PIE is defined within EU Law and so we urge that the Boards seek as far as possible to arrive at a definition that is compatible with that. The EU definition includes “entities designated by Member States as public-interest entities” and this has resulted in diversity of application. We would prefer to avoid using terms, like ‘SPIE’ or ‘ESPI’, which are not commonly used in regulation.

At the March 2020 IAASB and IESBA CAG meetings our representative expressed tentative support for the “strawman” draft definition that was presented. We also see merit in aligning definitions across financial reporting, audit and assurance, and ethical standards. Indeed, the strawman is shares much in common with the definition of “public accountability” used by the IFRS.

- 5. Do you support the IESBA’s proposals relating to materiality, including the proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs (see Section III, B “Materiality”)?**

We support this proposal.

6. Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of materiality:

- ***Tax planning and tax advisory services provided to an audit client when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R604.13)***

We support this proposal in principle but wonder whether it might be more appropriate to distinguish between PIEs and non-PIEs.

- ***Corporate finance services provided to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R610.6)?***

We support this proposal in principle but wonder whether it might be more appropriate to distinguish between PIEs and non-PIEs.

7. Do you support the proposals for improved firm communication with TCWG (see proposed paragraphs R600.18 to 600.19 A1), including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE (see proposed paragraph R600.19)?

We support these proposals.

8. Do you support the proposal to move the provisions relating to assuming management responsibility from Section 600 to Section 400, and from Section 950 to Section 900?

We support this proposal.

9. Do you support the proposal to elevate the extant application material relating to the provision of multiple NAS to the same audit client to a requirement (see proposed paragraph R600.10)? Is the related application material in paragraph 600.10 A1 helpful to implement the new requirement?

We support in principle this proposal.

10. Do you support the proposed revisions to subsections 601 to 610, including:

- ***The concluding paragraph relating to the provision of services that are “routine or mechanical” in proposed paragraph 601.4 A1?***

We support this proposed revision.

- ***The withdrawal of the exemption in [extant paragraph R601.7](#) that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if certain conditions are met?***

We support this proposed revision.

- ***The prohibition on the provision of a tax service or recommending a tax transaction if the service or transaction relates to marketing, planning or opining in favor of a tax treatment,***

and a significant purpose of the tax treatment or transaction is tax avoidance (see proposed paragraph R604.4)?

We wonder whether it might be more appropriate to distinguish between PIEs and non-PIEs.

- ***The new provisions relating to acting as a witness in subsection 607, including the new prohibition relating to acting as an expert witness in proposed paragraph R607.6?***

We support this proposed revision.

11. Do you support the proposed consequential amendments to Section 950?

We support the proposed consequential amendments.

12. Are there any other sections of the Code that warrant a conforming change as a result of the NAS project?

We have no further comments.

OTHER COMMENTS

We question the practicality in paragraph R400.32 of engaging a professional accountant who is not a member of the firm or for the PIE to engage another firm to either evaluate the results of the NAS or to re-perform the NAS. Furthermore, we question whether this is necessary in all circumstances irrespective of magnitude or relevance of NAS rendered. Accordingly, we suggest the IESBA consider other solutions for less severe situations.

CONCLUDING COMMENTS

We trust that the above is clear, but should you have any questions on our comments, please do not hesitate to contact us.

Yours faithfully,

Salvador Marin

President

Paul Thompson

Director