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April 28, 2020

Mr. Ken Siong
Senior Technical Director
International Ethics Standards Board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY 10017

GAO's Response to the International Ethics Standards Board for Accountants' January 2020 Exposure Draft, *Proposed Revisions to the Non-Assurance Services Provisions of the Code*

Dear Mr. Siong:

This letter provides GAO's response to the exposure draft, *Proposed Revisions to the Non-Assurance Services Provisions of the Code*. GAO promulgates generally accepted government auditing standards (GAGAS) in the United States.¹ GAGAS provides a framework for conducting high-quality audits of government awards with competence, integrity, objectivity, and independence. Our comments reflect the importance we place on reinforcing the values promoted in both the *International Code of Ethics for Professional Accountants (Code)* and GAGAS.

We support the International Ethics Standards Board for Accountants' (IESBA) efforts to address concerns about auditor independence when non-assurance services (NAS) are provided to audit clients. Overall, we believe that the proposed changes will promote consistent application of NAS across firms and jurisdictions. Specifically, we agree with the new requirement that expressly prohibits firms from providing NAS that create a self-review threat to public interest entities (PIE).

The IESBA is seeking responses to a number of questions related to the proposed revisions. Our responses to the questions follow.

Specific Comments

Prohibition on NAS That Will Create a Self-Review Threat for PIEs

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

We support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14. However, we suggest that the IESBA consider clarifying the reasoning provided in paragraph 600.13 A1 supporting this proposal. We suggest the reason for the prohibition may be related to a wider or greater interest in public interest entities.

¹GAO, *Government Auditing Standards: 2018 Revision*, GAO-18-568G (Washington, D.C.: July 2018).

- 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?**

The proposed application material in 600.11 A2 clearly sets out the thought process to be undertaken when considering whether the provision of NAS to an audit client will create a self-review threat. However, at the end of 600.11 A2(b), we suggest changing “and” to “or.” In our view, all three risks do not need to be present for the provisions of a NAS to create a self-review threat.

Providing Advice and Recommendations

- 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 that the proposed application material relating to providing advice and recommendations in proposed paragraph 600.12 A1, along with the information on tax advisory and tax planning in proposed paragraph 604.12 A2, is sufficiently clear and appropriate. For enhanced clarity, we suggest changing the beginning of the fourth sentence of paragraph 600.12 A1 to state that the sentence applies only to non-PIE audit clients rather than stating this at the end of the sentence.

Project on Definitions of Listed Entity and PIE

- 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 encourage the IESBA to converge the concepts of PIE and entity of significant public interest in the Code and the International Auditing and Assurance Standards Board standards, respectively. We also encourage convergence for the definitions of listed entity in both sets of standards.

Materiality

- 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 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.

- 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)?**

- **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 the proposal to prohibit tax planning, tax advisory services, and corporate finance services to an audit client under these circumstances. We agree that such NAS should be prohibited, irrespective of materiality, when the effectiveness of the advice depends on a particular accounting treatment or presentation and the audit team has doubts about the appropriateness of that treatment or presentation.

Communication with Those Charged with Governance (TCWG)

- 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 the proposals for improved firm communication with TCWG, including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE.

Other Proposed Revisions to General NAS Provisions

- 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 understand the IESBA's goal to give more prominence to the prohibition on assuming management responsibilities by moving the prohibition and related requirements to the conceptual framework section of the Code. However, we believe that extant paragraphs R600.8 and R950.7 related to management's skills, knowledge, and experience should remain in the NAS sections of the Code. In our view, keeping these paragraphs in their current locations would assist firms in complying with these requirements, as they most directly relate to the provision of NAS.

- 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 the proposal to elevate the extant application material relating to providing multiple NAS to the same audit client to a requirement. Regarding the application material in paragraph 600.10 A1, we believe that the first bullet is redundant with paragraph R600.10, while the second bullet provides additional information for implementing the proposed new requirement.

Proposed Revisions to Subsections

- 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?**

- **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?**
- **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)?**
- **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 the proposed revisions to subsections 601 to 610, including the addition to proposed paragraph 601.4 A1, the withdrawal of the exemption in extant paragraph R601.7, the proposed paragraph R604.4, and the new provisions relating to acting as a witness in subsection 607. We suggest that the IESBA require firms to document their evaluation of the threats created by providing routine and mechanical accounting and bookkeeping services. This approach is consistent with GAGAS and will provide transparency regarding the provision of accounting and bookkeeping services to audit clients.

Proposed Consequential Amendments

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

We generally support the proposed consequential amendments to Section 950. As noted in our response to question 8, we believe that extant paragraph R950.7 related to management's skills, knowledge, and experience should remain in the NAS sections of the Code.

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

We have not identified other sections of the Code that warrant conforming changes.

Request for General Comment

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below: a) TCWG; b) small- and medium-sized entities (SMEs) and small and medium practices (SMPs); c) regulators and audit oversight bodies; d) developing nations; and e) translation.

We do not have additional comments beyond those provided in the previous responses.

Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or dalkinj@gao.gov.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James R. Dalkin
Director
Financial Management and Assurance