



Paris La Defense, June 4<sup>th</sup>, 2020

**To : Ken Siong**  
IESBA Senior Technical Director

Re: Comment on IESBA - **Proposed Revisions to Non-Assurance Services Provisions of the Code**

Dear Mr Siong,

MAZARS is pleased to submit this letter in response to your invitation to comment on the Proposed Revisions to Non-Assurance Services Provisions of the Code

MAZARS is an international, integrated and independent partnership, specialising in audit, accountancy, advisory, tax and legal services. As of 1<sup>st</sup> January 2020, there are over 24,000 professional staff including more than 1,000 partners, in 91 countries worldwide, trusted and committed in serving major international groups, entrepreneurial and small businesses, private investors and public bodies at every stage of their development.

MAZARS appreciates and supports all initiatives taken to enhance professional independence and ethics and the future of the profession for the benefit of the public interest and welcome the opportunity to add our views to the debate. The debate on auditors' independence has been in full flow in a significant number of countries for the past few years, and MAZARS is fully committed in steering change to support this cause.

We believe that the proposed revisions to the current Non-Assurance Services Provisions of the Code will help improve independence in the way audits and reviews are conducted. However, we want to emphasize on the following aspects of the standards where we consider further guidance or development is required which is included in our detailed responses.

You will find in attachment to this letter the detailed comments to your questions raised in the exposure draft dated January 2020.

We hope these responses will help to illustrate our commitment and our effort for continuous improvement in auditors independence.

We would be pleased to discuss our detailed comments with you and remain at your disposal, should you require further clarification or additional information.

Yours sincerely,

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**Attachments:** Completed Responses to IESBA - Proposed Revisions to Non-Assurance Services Provisions of the Code

## Questions and responses

### 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 ?

Response:

We support the proposal but believe further consideration should be given for small PIEs which may not have internal resources to perform the service and it would be inefficient or more expensive for them to appoint another professional firm to do it.

We suggest that you consider including in paragraph R600.14 a cross reference to paragraph 600.11.A2

Moreover, if NAS is provided by a network firm on an insignificant non-PIE subsidiary within a group, which financial is not subject to audit for the needs of the group audit, the group auditor will remain independent. We then suggest that there should be consistency in the definition of audit procedures and judgments between ISA and IAASB.

- 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 ?

Response:

We recommend adding in sub-paragraph (a) – the results of the service will ‘directly or indirectly’ affect the accounting records.

The word ‘or’ should be inserted between ‘records’ and ‘control’ in the first line of sub-paragraph (a).

In relation to sub-paragraph (b), we would expect audit procedures to be performed unless the impact of the service was immaterial.

In relation to sub-paragraph (c):

- (i) we think it is necessary to give more precision on what ‘audit judgment’ means
- (ii) there is reference to the audit team relying on judgments made by the firm in providing the non assurance service. We do not think the auditor should rely on judgments made by others. They need to form an independent opinion having evaluated the situation themselves.

### 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 ?

Response:

Identifying weaknesses in a client’s financial and accounting systems and making recommendations to eliminate or mitigate these weaknesses is a normal output of an audit. For example, if the auditor provides an objective and factual recommendation to

the audit client and the client has the necessary resources to review and challenge the recommendation and take the final decision whether or not to implement it, this would not create a self-review threat. We recommend that consideration is given to reflecting this in paragraph 600.12 A1 to distinguish it from advice and recommendations provided from a non-assurance service.

In relation to paragraph 604 12 A2, the word 'or' should be added between sub-paragraphs (a) and (b). It would be helpful to clarify whether the examples in this section are an exhaustive list of situations which will not create a self-review threat.

The reference in paragraph 604 12 A2 sub-paragraph (c) to 'have a basis in law which is likely to prevail' is subjective and it is not clear who will make the determination.

### **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.

Response:

We consider that the definition should take into account the size and significance of the entity. For example is a small unlisted domestic bank or insurance entity really a Public Interest Entity? Whilst it may be subjective, you could consider size thresholds. More difficult but still worth considering is whether smaller companies which are listed on secondary markets are PIEs. Also many SPV's have thinly traded debt listed on recognized stock exchanges – should such entities be considered PIEs? On the other hand, there are many large private companies which, due to their size and significance, are of more interest to the public but currently excluded from the definition of a PIE.

We do not favour removing the distinction between the requirements for PIEs and non PIEs which would result in the NAS provisions in the code being the same for all entities. We consider that such an approach would place an unnecessary burden on small non PIE entities which would be disproportionate to any perceived benefits.

Finally, it should be reminded that Governments and Regulators have often set the definition of PIEs at national level. The code should then remain principles based.

### **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") ?

Response:

This is a difficult balance between removing the discretion to determine that the outcome of a NAS is not material and the potential impact on smaller PIEs noted in our response to Q1 above. From the perception of the public on auditor independence, it may be considered appropriate to withdraw the materiality qualifier but we are not convinced that doing so will result in any practical benefit as, if the services are immaterial or not

significant to the financial statements, by definition they will not be addressed as part of the audit. On balance therefore we do not support this proposal. If you do proceed with it, further consideration should be given to the impact on smaller PIEs.

The Code is principles based and not a set of rules. We do then not support this proposal; It is important to keep materiality qualifier as it applies in ISAs.

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) ?

Response:

Yes, we support the proposal, but recommend that you clarify that factual and objective technical consultations e.g. summarising laws or regulations is permitted.

### Communication with 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) ?

Response:

Yes, we agree with the proposal.

### 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 ?

Response:

Yes, we agree with the 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 ?

Response:

Yes, we agree with the proposal and the application material is helpful.

### **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 ?

Response:

We agree with the proposals apart from 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. If the entities or services involved are collectively immaterial we do not see a reason to prohibit them.

### **Proposed Consequential Amendments**

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

Response:

Yes, we support.

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

Response:

None identified