

NAS–Proposed Revisions to Sections 600 and 400

(Clean Version)

Note: This document includes a clean version of the Task Force’s proposed revisions to the NAS provisions in the Code that apply to audit and review engagements (i.e., those in Part 4A of the Code).

Representatives who wish to obtain further details about the changes being proposed to the revised and restructured Code (i.e., the [extant Code](#)) should refer to **Agenda Items 2A** and **2B** of the agenda materials for the IESBA’s September 2019 meeting which are accessible at: www.ethicsboard.org/meetings.

I. Proposed Revisions to Section 600**INTERNATIONAL INDEPENDENCE STANDARDS****PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS****SECTION 600****PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT****Introduction**

- 600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.
- 600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to audit clients and indicate the types of threats that might be created as a result.
- 600.4 In addition to the general provisions that apply in all circumstances, some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to an audit client in certain circumstances because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.

Requirements and Application Material

General

600.5 A1 New business practices, the evolution of financial markets and changes in information technology are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to an audit client. As a result, the Code does not include an exhaustive list of all non-assurance services that might be provided to an client.

Non-Assurance Services Provisions in Laws or Regulations

600.6 A1 Paragraphs R100.3 to 100.3 A2 set out a requirement and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services that differ from or go beyond those set out in this section, firms in that jurisdiction need to be aware of those differences and comply with the more stringent provisions unless they are required by law or regulation to provide such services.

Prior to Acceptance of a Non-Assurance Engagement

R600.7 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by the provision of that non-assurance service.

Identifying Threats

600.8 A1 A description of the categories of threats that might arise when a firm or a network firm provides a non-assurance service to an audit client is set out in paragraph 120.6 A3.

Evaluating Threats

600.9 A1 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an audit client include:

- The nature, scope and purpose of the service.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The level of expertise of the client's management and employees with respect to the type of service provided.

- The extent to which the client determines significant matters of judgment. (Ref: Para. R400.13 to R400.14).
- Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion, and, if so:
 - The extent to which the outcome of the service will have a material effect on the financial statements.
 - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
 - Accounting records or financial statements on which the firm will express an opinion.
 - Internal controls over financial reporting.

600.10 A1 Concerns about a firm's independence are heightened in the case of audits of public interest entities. Therefore, as required in identifying, evaluating and addressing threats to independence, the use of the reasonable and informed third party test is especially important when deciding whether to provide a non-assurance service to an audit client that is a public interest entity.

600.10 A2 Subsections 601 to 610 include examples of additional factors that are relevant in evaluating the level of threats created by providing the non-assurance services set out in those subsections.

Materiality in Relation to Financial Statements

600.11 A1 Subsections 601 to 610 refer to materiality in relation to an audit client's financial statements. The concept of materiality in relation to an audit is addressed in ISA 320, *Materiality in Planning and Performing an Audit*, and in relation to a review in ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

Multiple Non-Assurance Services Provided to the Same Audit Client

R600.12 When a firm or a network firm provides multiple non-assurance services to an audit client, the firm shall consider, in addition to the threats created by each service individually, whether the combined effect of such services creates or impacts threats to independence.

600.12 A1 In addition to paragraph 600.9 A1, factors that are relevant in evaluating the level of threats created by providing multiple non-assurance services to an audit client might include whether:

- The combined effect of providing multiple services impacts the level of threats created by each individual service.
- Another non-assurance service impacts the effectiveness of safeguards put in place in relation to engagements to provide other non-assurance services.

Addressing Threats

600.13 A1 Paragraphs R120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards. Safeguards might not be available to reduce any threat created by providing a non-assurance service to an audit client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm to:

- (a) Adjust the scope of the proposed non-assurance service to eliminate the threats;
- (b) Decline or end the non-assurance service that creates the threat that cannot be eliminated or reduced to an acceptable level; or
- (c) End the audit engagement.

600.13 A2 Safeguards that might address threats to independence created by providing a non-assurance service to an audit client vary depending on the facts and circumstances of the audit and the engagement and the non-assurance service. Actions that might be safeguards include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.
- Obtaining pre-clearance or confirmation of the outcome of the service from an appropriate authority (e.g., a tax authority).

600.13 A3 Subsections 601 to 610 include examples of actions, including safeguards, that might address threats to independence created by providing the non-assurance services dealt with in those subsections when threats are not at an acceptable level. Those examples are not exhaustive.

Self-review Threats

600.14 A1 A self-review threat is created when a firm or a network firm provides a non-assurance service to an audit client and there is a possibility that the firm will not appropriately evaluate the results of a judgment made or an activity performed by another individual within the firm or network firm as part of that service and on which the audit team will rely when forming a judgment as part of an audit.

Audit clients that are public interest entities

R600.15 A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity if a self-review threat will be created in relation to the audit of the financial statements on which the firm will express an opinion.

600.15 A1 Where the provision of a non-assurance service to an audit client that is a public interest entity creates a self-review threat, that threat cannot be eliminated and safeguards are not capable of being applied to reduce that threat to an acceptable level.

600.15 A2 A determination of whether a non-assurance service provided by a firm or a network firm creates a self-review threat in relation to the audit involves a consideration of whether there is a possibility that:

- The outcome of the service will be subject to audit procedures.
- The judgments made and conclusions reached in relation to the NAS will be relied upon by the firm or subject to audit procedures.

Providing Advice and Recommendations

600.16 A1 Providing advice and recommendations in the course of performing an engagement to provide a non-assurance service to an audit client:

- (a) Might constitute assuming management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R400.14 have been complied with in relation to the implementation of such advice and recommendations; and
- (b) Might create a self-review threat. If a self-review threat is created, application of the conceptual framework requires the firm to address the threat where the audit client is not a public interest entity, otherwise paragraph R600.15 applies.

Communication with Those Charged With Governance Regarding Non-Assurance Services

Audit Clients that are not Public Interest Entities

600.17 A1 Communication with those charged with governance might be appropriate when significant judgments are made and conclusions reached to address threats to independence created by providing non-assurance services to audit clients that are not public interest entities.

Audit Clients that are Public Interest Entities

R600.18 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client that is a public interest entity (which, for this purpose, shall include only related entities over which the audit client has direct or indirect control), the firm shall provide to those charged with governance of the public interest entity information about:

- (c) The nature and scope of the service to be provided;

- (d) Any threats to independence that might be created by the provision of such service;
- (e) The firm’s evaluation of whether any threats identified are at an acceptable level;
- (f) Actions that the firm or network firm intends to take to address any threats that are not at an acceptable level; and
- (g) If actions are proposed to address such threats, why the threats would be eliminated or reduced to an acceptable level.

R600.19 A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity (which, for this purpose, shall include only related entities over which the audit client has direct or indirect control), unless those charged with governance of the public interest entity agree:

- (a) To the provision of that service.
- (b) With the firm’s conclusion that any threat to independence that might be created has been eliminated or safeguards are capable of being applied to reduce such threat to an acceptable level.

600.19 A1 The firm and those charged with governance of the public interest entity might agree on a process for the firm to obtain the concurrence of those charged with governance for the provision of a non-assurance service to the audit client. For example, agreement may be obtained either on an individual engagement basis, under a general policy, or via other means provided that the process to be used is approved by those charged with governance.

Other Considerations

Fees Charged for Non-Assurance Services

600.20 A1 Section 410 sets out requirements and application material that are relevant to identify, evaluate and address threats that might be created by the fees charged for providing non-assurance services to audit clients.

Audit Client that Later Becomes a Public Interest Entity

R600.21 A non-assurance service provided, either currently or previously, by a firm or a network firm to an audit client compromises the firm’s independence when the client becomes a public interest entity unless:

- (a) The previous non-assurance service complies with the provisions of this section that relate to audit clients that are not public interest entities;
- (b) Non-assurance services currently in progress that are not permitted under this section for audit clients that are public interest entities are ended before, or as soon as practicable after, the client becomes a public interest entity; and

- (c) The firm discusses actions that might be taken with those charged with governance, including any safeguards or actions, and obtains their concurrence to the approach it proposes to take to address any threat to independence.

Considerations for Certain Related Entities

R600.22 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit clients. As an exception to those requirements and the requirement in paragraph R400.13, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:

- (a) An entity that has direct or indirect control over the client;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- (c) An entity which is under common control with the client,

provided that all of the following conditions are met:

- (i) The firm or a network firm does not express an opinion on the financial statements of the related entity;
- (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion;
- (iii) The services do not create a self-review threat because the results of the services will not be subject to audit procedures; and
- (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.22 are relevant to applying the conceptual framework when providing accounting and bookkeeping services to an audit client.

Requirements and Application Material

All Audit Clients

601.2 A1 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

- Determining accounting policies and the accounting treatment in accordance with those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
 - Purchase orders.
 - Payroll time records.
 - Customer orders.
- Originating or changing journal entries.
- Determining or approving the account classifications of transactions.

601.2 A2 The audit process necessitates dialogue between the firm and the management of the audit client, which might involve:

- Applying accounting standards or policies and financial statement disclosure requirements.
- Assessing the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities.
- Proposing adjusting journal entries arising from audit findings.
- Responding to questions relating to financial reporting.

These activities do not usually create threats as long as the client takes responsibility for making the decisions involved in the preparation of accounting records and financial statements.

Description of Service

601.2 A3 Accounting and bookkeeping services comprise a broad range of services including:

- Preparing accounting records and financial statements.
- Recording transactions.

- Payroll services.

601.2 A4 An audit client might request technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for financial or regulatory reporting. In addition, the client might request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another. Examples include:

- Complying with group accounting policies.
- Transitioning to a different financial reporting framework such as International Financial Reporting Standards.

Such services do not usually create threats provided neither the firm nor network firm assumes a management responsibility for the client.

Potential Threats Arising from the Provision of Accounting and Bookkeeping Services

All Audit Clients

601.3 A1 Providing accounting and bookkeeping services to an audit client creates a self-review threat when the results of the services impact the financial statements on which the firm will express an opinion.

Audit Clients that are Not Public Interest Entities

R601.4 A firm or a network firm shall not provide to an audit client that is not a public interest entity accounting and bookkeeping services, including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements, unless:

- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any threats that are created by providing such services that are not at an acceptable level.

601.4 A1 Routine and mechanical accounting and bookkeeping services require little or no professional judgment. The firm may provide such services to audit clients that are not public interest entities provided that the requirement in R601.4 (b) is met. Some examples of these services are:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.

- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

601.4 A2 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine and mechanical nature to an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

Audit Clients that are Public Interest Entities

R601.5 A firm or a network firm shall not provide accounting and bookkeeping services to an audit client that is a public interest entity when the results of such services impact the financial statements on which the firm will express an opinion.

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.22 are relevant to applying the conceptual framework when providing administrative services.

Application Material

Description of Service

602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature.

602.2 A2 Examples of administrative services include:

- Word processing or document formatting.
- Data search and retrieval services relating to information against criteria determined by the client.

- Preparing and submitting administrative or statutory forms for client approval.
- Monitoring filing dates and advising the audit client of those dates.

Potential Threats Arising from the Provision of Administrative Services

All Audit Clients

602.3 A1 Providing administrative services to an audit client does not usually create a threat.

SUBSECTION 603 – VALUATION SERVICES

Introduction

603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.22 are relevant to applying the conceptual framework when providing valuation services to an audit client.

Requirements and Application Material

Description of Service

603.2 A1 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques and the combination of both to compute a certain value, or range of values, for an asset, a liability or for an entity as a whole.

603.2 A2 If a firm or a network firm is requested to perform a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements, the requirement and application material set out in paragraphs 604.15 A1 to R604.18, relating to such services, apply.

Potential Threats Arising from the Provision of Valuation Services

All Audit Clients

603.3 A1 Providing valuation services to an audit client might create a self-review or advocacy threat when the results of the services impact the financial statements on which the firm will express an opinion.

603.3 A2 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing valuation services to an audit client include:

- The use and purpose of the valuation report.
- Whether the valuation report will be made public.
- The extent of the client's involvement in determining and approving the valuation

methodology and other significant matters of judgment.

- The degree of subjectivity inherent in the item for valuations involving standard or established methodologies.
- Whether the valuation will have a material effect on the financial statements.
- The extent and clarity of the disclosures related to the valuation in the financial statements.
- The degree of dependence on future events of a nature that might create significant volatility inherent in the amounts involved.

Audit Clients that are Not Public Interest Entities

603.3 A3 Examples of actions that might be safeguards to address threats created by providing valuation services to an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

R603.4 A firm or a network firm shall not provide a valuation service to an audit client that is not a public interest entity if:

- (a)** The valuation involves a significant degree of subjectivity; and
- (b)** The valuation will have a material effect on the financial statements on which the firm will express an opinion.

603.4 A1 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are either established by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

Audit Clients that are Public Interest Entities

Self-review Threats

R603.5 A firm or a network firm shall not provide a valuation service to an audit client that is a public interest entity if the provision of that valuation service will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Advocacy Threats

603.5 A1 An example of an action that might be safeguards to address an advocacy threat created by providing valuation services to an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.

SUBSECTION 604 – TAX SERVICES

Introduction

604.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.22 are relevant to applying the conceptual framework when providing a tax service to an audit client.

Requirements and Application Material

Description of Service

604.2 A1 Tax services comprise a broad range of services. This subsection deals specifically with:

- Tax return preparation.
- Tax calculations for the purpose of preparing accounting entries.
- Tax advisory and tax planning services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

604.2 A2 It is possible to consider tax services under broad headings, such as tax planning or compliance. However, such services are often interrelated in practice and might be combined with other types of non-assurance services provided by the firm. It is, therefore, impracticable to categorize services in order to identify generically the threats to which specific tax services give rise. Firms and network firms are required to apply the conceptual framework to identify, evaluate and address threats created by providing tax services that are not expressly dealt with in this subsection.

Potential Threats Arising from the Provision of Tax Services

604.3 A1 Providing tax services to an audit client might create a self-review or advocacy threat when the results of the services impact the financial statements on which the firm will express an opinion.

604.3 A2 Factors that are relevant in evaluating the level of threats created by providing any tax service to an audit client include:

- The particular characteristics of the engagement.
- The level of tax expertise of the client’s employees.
- The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
- The complexity of the relevant tax regime and the degree of judgment necessary in applying it.

All Audit Clients

R604.4 A firm or a network firm shall not provide a tax service to an audit client if the service relates to marketing, planning, or opining in favor of the tax treatment for a transaction unless that treatment is more likely than not to be allowable under applicable tax laws and regulations.

A. Tax Return Preparation

Description of Service

604.5 A1 Tax return preparation services include:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities.
- Advising on the tax return treatment of past transactions and responding on behalf of the audit client to the tax authorities’ requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

Potential Threats Arising from the Provision of Tax Return Preparation Services

All Audit Clients

604.6 A1 Providing tax return preparation services does not usually create a threat because:

- Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice; and
- Tax returns are subject to whatever review or approval the tax authority considers appropriate.

B. Tax Calculations for the Purpose of Preparing Accounting Entries

Description of Service

604.7 A1 This service includes the preparation of tax calculations (current and deferred tax liabilities or assets) for the purpose of preparing accounting entries supporting the tax asset or liability in the financial statements of the audit client.

Potential Threats Arising from the Provision of Tax Calculation Services

All Audit Clients

604.8 A1 Preparing tax calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries creates a self-review threat when the results impact the financial statements on which the firm will express an opinion.

Audit Clients that are Not Public Interest Entities

604.9 A1 In addition to those identified in paragraph 604.3 A2, a factor that is relevant in evaluating the level of the threat created when preparing tax calculations of current and deferred tax liabilities (or assets) for an audit client that is not a public interest entity for the purpose of preparing accounting entries is whether the calculation might have a material effect on the financial statements on which the firm will express an opinion.

604.9 A2 Examples of actions that might be safeguards to address such a self-review threat when the audit client is not a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.

Audit Clients that are Public Interest Entities

R604.10 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity for the purpose of preparing accounting entries when the service impacts the financial statements on which the firm will express an opinion.

C. Tax Advisory and Tax Planning Services

Description of Service

604.11 A1 Tax advisory and tax planning services comprise a broad range of services, such as advising the client on how to apply taxation and revenue laws and regulations.

Potential Threats Arising from the Provision of Tax Advisory and Tax Planning Services

All Audit clients

604.12 A1 Providing tax advisory and tax planning services might create a self-review or advocacy threat when the results of the services impact the financial statements on which the firm will express an opinion.

604.12 A2 In addition to those identified in paragraph 604.3 A2, factors that are relevant in evaluating the level of self-review or advocacy threats created by providing tax advisory and tax planning services to audit clients include:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements.
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.

For example, whether the advice provided as a result of the tax advisory and tax planning services:

- Is clearly supported by a tax authority or other precedent.
- Is an established practice.
- Has a basis in tax law that is likely to prevail.
- The extent to which the outcome of the tax advice might have a material effect on the financial statements.
- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework.

R604.13 A firm or a network firm shall not provide tax advisory and tax planning services to an audit client when:

- (a) The effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements; and
- (b) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit Clients that are Not Public Interest Entities

604.14 A1 Examples of actions that might be safeguards to address such threats for an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service, review the audit work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Audit Clients that are Public Interest Entities

Self-review Threats

R604.15 A firm or a network firm shall not provide tax advisory and tax planning services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Advocacy threats

604.15 A1 Examples of actions that might be safeguards to address an advocacy threat created by tax advisory and tax planning services for an audit client that is a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

D. Tax Services Involving Valuations

Description of Service

604.16 A1 The provision of tax services involving valuations can arise in a range of circumstances and include:

- Merger and acquisition transactions.
- Group restructurings and corporate reorganizations.
- Tax transfer pricing arrangements.
- Stock-based compensation arrangements.

Potential Threats Arising from the Provision of Tax Services involving Valuations

All Audit Clients

604.17 A1 Providing tax valuation services to an audit client might create a self-review or advocacy threat

when the results of the services impact the financial statements on which the firm will express an opinion.

604.17 A2 A firm or a network firm might perform a tax valuation to assist an audit client with its tax reporting obligations or for tax planning purposes where the result of the valuation will have a direct effect on the financial statements. In such situations, the requirements and application material set out in Subsection 603 relating to valuation services apply.

Audit Clients that are Not Public Interest Entities

604.18 A1 A firm or a network firm might perform a valuation for tax purposes only for an audit client that is not a public interest entity where the result of the valuation will not have a direct effect on the financial statements (that is, the financial statements are only affected through accounting entries related to tax). This would not usually create threats if the effect on the financial statements is immaterial or the valuation is subject to external review by a tax authority or similar regulatory authority.

604.18 A2 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the financial statements, in addition to those identified in paragraph 604.3 A2, the following factors are relevant in evaluating the level of self-review or advocacy threats created by providing those services to an audit client that is not a public interest entity:

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
- The degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

604.18 A3 Examples of actions that might be safeguards to address threats for an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Audit Clients that are Public Interest Entities

Self-review Threats

R604.19 As an exception to paragraph R603.5, a firm or a network firm may perform a valuation for tax purposes for a public interest entity where the result of the valuation impacts the financial

statements on which the firm will express opinion, when:

- (a) The valuation is subject to external review by a tax authority or similar regulatory authority;
- (b) The underlying assumptions are either established by law or regulation, or are widely accepted; or
- (c) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation.

Advocacy Threats

604.19 A1 Examples of actions that might be safeguards to address an advocacy threat for an audit client that is a public interest entity include:

- Using professionals who are not audit team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

E. Assistance in the Resolution of Tax Disputes

Description of Service

604.20 A1 A non-assurance service to provide assistance to an audit client in the resolution of tax disputes might arise from a tax authority's consideration of tax calculations and treatments. This includes, for example, providing assistance when the tax authorities have notified the client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding, for example, before a public tribunal or court.

Potential Threats Arising from the Provision of Assistance in the Resolution of Tax Disputes

All Audit Clients

604.21 A1 Providing assistance in the resolution of a tax dispute to an audit client might create a self-review or advocacy threat

604.22 A1 In addition to those identified in paragraph 604.3 A2, factors that are relevant in evaluating the level of self-review or advocacy threats created by assisting an audit client in the resolution of tax disputes include:

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion.

- Whether the advice that was provided is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

Audit Clients that are Not Public Interest Entities

604.23 A2 Examples of actions that might be safeguards to address threats for an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed might address a self-review threat.

Audit Clients that are Public Interest Entities

Self-review Threats

R604.24 A firm or a network firm shall not provide assistance in the resolution of tax disputes to an audit client that is a public interest entity if the provision of that assistance will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Advocacy Threats

604.24 A1 An example of an action that might be safeguards to address an advocacy threat for an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.

Resolution of Tax Matters Including Acting as an Advocate before a Tribunal or Court

Audit Clients that are Not Public Interest Entities

R604.25 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit client that is not a public interest entity if:

- (a) The services involve acting as an advocate for the audit client before a tribunal or court in the resolution of a tax matter; and
- (b) The amounts involved are material to the financial statements on which the firm will express an opinion.

604.25 A1 Paragraph R604.25 does not preclude a firm or a network firm from having a continuing

advisory role in relation to the matter that is being heard before a tribunal or court, for example:

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analyzing the tax issues related to the matter.

604.25 A2 What constitutes a “tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

Audit Clients that are Public Interest Entities

R604.26 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit client that is a public interest entity if the services involve acting as an advocate for the audit client before a tribunal or court.

SUBSECTION 605 – INTERNAL AUDIT SERVICES

Introduction

605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.22 are relevant to applying the conceptual framework when providing an internal audit service to an audit client.

Requirements and Application Material

Description of Service

605.2 A1 Internal audit services involve assisting the audit client in the performance of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information by:
 - Reviewing the means used to identify, measure, classify and report financial and operating information.
 - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity.
- Reviewing compliance with:

- Laws, regulations and other external requirements.
- Management policies, directives and other internal requirements.

605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance. As they might involve matters that are operational in nature, they do not necessarily relate to matters that will be subject to consideration in relation to the audit of the financial statement.

R605.3 When providing an internal audit service to an audit client, the firm shall be satisfied that:

- (a)** The client designates an appropriate and competent resource, preferably within senior management, to:
 - (i)** Be responsible at all times for internal audit activities; and
 - (ii)** Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;
- (b)** The client's management or those charged with governance reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c)** The client's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d)** The client's management evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e)** The client's management reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

605.3 A1 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. Performing a significant part of the client's internal audit activities increases the possibility that firm or network firm personnel providing internal audit services will assume a management responsibility.

605.3 A2 Examples of internal audit services that involve assuming management responsibilities include:

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.

- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

Potential Threats Arising from the Provision of Internal Audit Services

All Audit Clients

605.4 A1 Providing internal audit services to an audit client might create a self-review threat when the results of the services impact the financial statements on which the firm will express an opinion.

605.4 A2 When a firm uses the work of an internal audit function in an audit engagement, ISAs require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or a network firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This creates a self-review threat because it is possible that the audit team will use the results of the internal audit service for purposes of the audit engagement without:

- (a) Appropriately evaluating those results; or
- (b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

Audit Clients that are Not Public Interest Entities

605.5 A1 Factors that are relevant in evaluating the level of self-review threat created by providing internal audit services to an audit client that is not a public interest entity include:

- The materiality of the related financial statement amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.
- The degree of reliance that the audit team will place on the work of the internal audit service, including in the course of an external audit.

605.5 A2 An example of an action that might be a safeguard to address such a self-review threat is using professionals who are not audit team members to perform the service.

Audit Clients that are Public Interest Entities

R605.6 A firm or a network firm shall not provide internal audit services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

605.6 A1 Examples of the services that are prohibited under paragraph R605.6 include internal audit services that relate to:

- The internal controls over financial reporting.
- Financial accounting systems that generate information for the client’s accounting records or financial statements on which the firm will express an opinion.
- Amounts or disclosures that relate to the financial statements on which the firm will express an opinion.

SUBSECTION 606 – INFORMATION SYSTEMS SERVICES

Introduction

606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.22 are relevant to applying the conceptual framework when providing an information systems service to an audit client.

Requirements and Application Material

Description of Service

606.2 A1 Services related to information systems include:

- Designing or implementing hardware or software systems to:
 - (a) Aggregate source data;
 - (b) Automate internal control over financial reporting; or
 - (c) Generate information that affects the accounting records or financial statements, including related disclosures.
- Installation of a commercial “off-the-shelf” information system or software package.
- Maintenance, support or monitoring of an information system, including the network.
- Assessing an entity’s cybersecurity or information systems, including security policies and practices.

The information systems might also involve matters that are unrelated to the audit client's accounting records or the internal control over financial reporting or financial statements.

606.2 A2 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. The following information systems services to an audit client do not usually create a threat as long as personnel of the firm or network firm do not assume a management responsibility:

- (a) Designing or implementing information systems that are unrelated to internal control over financial reporting;
- (b) Designing or implementing information systems that do not generate information forming part of the accounting records or financial statements;
- (c) Designing or implementing aspects of an entity's cybersecurity controls program that is unrelated to internal control over financial reporting.
- (d) Implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client's needs is not significant; and
- (e) Evaluating and making recommendations with respect to an information system designed, implemented or operated by another service provider or the client.

R606.3 When providing information systems services to an audit client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- (c) The client makes all management decisions with respect to the design and implementation process;
- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

Potential Threats Arising from the Provision of Information Systems Services

All Audit Clients

606.4 A1 Providing information systems services to an audit client might create a self-review threat when

the results of the services impact the financial statements on which the firm will express an opinion.

Audit Clients that are Not Public Interest Entities

606.5 A1 Factors that are relevant in evaluating the level of a self-review threat created by providing an information systems service to an audit client that is not a public interest entity include:

- The nature of the information systems service.
- The nature of the client’s information system and the extent to which the information systems service impacts or interacts with the client’s accounting records or financial statements.
- The degree of reliance that will be placed on the particular information system as part of the audit.

606.5 A2 An example of an action that might be a safeguard to address such a self-review threat is using professionals who are not audit team members to perform the service.

Audit Clients that are Public Interest Entities

R606.6 A firm or a network firm shall not provide information systems services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

606.6 A1 Examples of services that are prohibited include those involving designing or implementing information systems that:

- Form part of the internal control over financial reporting; or
- Generate information for the client’s accounting records or financial statements on which the firm will express an opinion.

SUBSECTION 607 – LITIGATION SUPPORT SERVICES

Introduction

607.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.22 are relevant to applying the conceptual framework when providing a litigation support service to an audit client.

Requirements and Application Material

Description of Service

607.2 A1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.

Potential Threats Arising from the Provision of Litigation Support Services

All Audit Clients

- 607.3 A1 Providing litigation support services to an audit client might create a self-review or advocacy threat when the results of the services impact the financial statements on which the firm will express an opinion.
- 607.4 A1 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing litigation support services to an audit client include:
- The legal and regulatory environment in which the service is provided, for example, whether an expert witness is chosen and appointed by a court.
 - The nature and characteristics of the service.
 - The extent to which the outcome of the litigation support service will involve estimating damages and other amounts that might affect the financial statements on which the firm will express an opinion.
- 607.4 A2 If a firm or a network firm provides a litigation support service to an audit client and the service involves estimating damages or other amounts that affect the financial statements on which the firm will express an opinion, the requirements and application material set out in Subsection 603 related to valuation services apply.

Audit Clients that are Not Public Interest Entities

- 607.5 A1 An example of an action that might be a safeguard to address such a self-review or advocacy threat for an audit client that is not a public interest entity is using a professional who was not an audit team member to perform the service.

Audit Clients that are Public Interest Entities

Self-review Threats

- R607.6** A firm or a network firm shall not provide litigation support services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

607.6 A1 An example of a service that is prohibited include advising on the potential liability arising from a legal proceeding for the purpose of quantifying any provision in the financial statements on which the firm will express an opinion.

Advocacy Threats

607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing litigation support services to an audit client that is a public interest entity is using a professional who was not an audit team member to perform the service.

SUBSECTION 608 – LEGAL SERVICES

Introduction

608.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.22 are relevant to applying the conceptual framework when providing a legal service to an audit client.

Requirements and Application Material

Description of Service

608.2 A1 Legal services are defined as any services for which the individual providing the services must either:

- (a) Have the required legal training to practice law; or
- (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

608.2 A2 This subsection deals specifically with:

- Providing legal advice.
- Acting as general counsel.
- Acting in an advocacy role.

Potential Threats Arising from Providing Legal Services

All Audit clients

608.3 A1 Providing legal services to an audit client might create a self-review or advocacy threat when the results of the services impact the financial statements on which the firm will express an opinion.

A. Providing Legal Advice

Description of Service

608.4 A1 Depending on the jurisdiction, providing legal advice might include a wide and diversified range of service areas including both corporate and commercial services to audit clients, such as:

- Contract support.
- Supporting an audit client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting an audit client's internal legal department.
- Legal due diligence and restructuring.

Potential Threats Arising from Providing Legal Advice

Audit Clients that are Not Public Interest Entities

608.5 A1 Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing legal advice to an audit client that is not a public interest entity include:

- The materiality of the specific matter in relation to the client's financial statements.
- The complexity of the legal matter and the degree of judgment necessary to provide the service.

608.5 A2 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit team members to perform the service might address a self-review or advocacy threat.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed might address a self-review threat.

Audit Clients that are Public Interest Entities

Self-review Threats

R608.6 A firm or a network shall not provide legal advice to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

608.6 A1 An example of a legal advice that might create such a self-review threat is advice relating to the interpretation of banking covenants that affect whether the audit client is a going concern.

Advocacy Threats

608.6 A2 The provisions in paragraphs 608.5 A1 and 608.5 A2 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advisory services to an audit client that is a public interest entity.

B. Acting as General Counsel

Potential Threats Arising from Acting as General Counsel

All Audit Clients

R608.7 A partner or employee of the firm or the network firm shall not serve as General Counsel for legal affairs of an audit client.

608.7 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

C. Acting in an Advocacy Role

Potential Threats Arising from Acting in an Advocacy Role

Audit Clients that are Not Public Interest Entities

R608.8 A firm or a network firm shall not act in an advocacy role for an audit client that is a not public interest entity in resolving a dispute or litigation before a tribunal or court when the amounts involved are material to the financial statements on which the firm will express an opinion.

608.8 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for an audit client that is not a public interest entity when the amounts involved are not material to the financial statements on which the firm will express an opinion include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed.

Audit Clients that are Public Interest Entities

R608.9 A firm or a network firm shall not act in an advocacy role for an audit client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

SUBSECTION 609 – RECRUITING SERVICES

Introduction

609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.22 are relevant to applying the conceptual framework when providing a recruiting service to an audit client.

Requirements and Application Material

Description of Service

609.2 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
 - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
 - Undertaking reference checks of prospective candidates.
 - Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Potential Threats Arising from Providing Recruiting Services

All Audit Clients

609.3 A1 Providing recruiting services to an audit client might create a self-interest, familiarity or intimidation threat.

609.4 A1 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. Providing the following services does not usually create a threat as long as personnel of the firm or network firm does not assume a management responsibility:

- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
- Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions.

R609.5 When a firm or a network firm provides recruiting services to an audit client, the firm shall be satisfied that:

- (a)** The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
- (b)** The client makes all management decisions with respect to the hiring process, including:
 - Determining the suitability of prospective candidates and selecting suitable candidates for the position.
 - Determining employment terms and negotiating details, such as salary, hours and other compensation.

609.5 A1 Factors that are relevant in evaluating the level of self-interest, familiarity or intimidation threats created by providing recruiting services to an audit client include:

- The nature of the requested assistance.
- The role of the individual to be recruited.
- Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.

609.5 A2 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not audit team members to perform the service.

Recruiting Services that are Prohibited

R609.6 When providing recruiting services to an audit client, the firm or the network firm shall not act as a negotiator on the client's behalf.

R609.7 A firm or a network firm shall not provide a recruiting service to an audit client if the service relates to:

- (a)** Searching for or seeking out candidates; or
- (b)** Undertaking reference checks of prospective candidates,
with respect to the following positions:
 - (i)** A director or officer of the entity; or
 - (ii)** A member of senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the

firm will express an opinion.

SUBSECTION 610 – CORPORATE FINANCE AND TRANSACTION SERVICES

Introduction

610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.22 are relevant to applying the conceptual framework when providing a corporate finance and transaction service to an audit client.

Requirements and Application Material

Description of Service

610.2 A1 Examples of corporate finance and transaction services include:

- Assisting an audit client in developing corporate strategies.
- Identifying possible targets for the audit client to acquire.
- Advising on disposal transactions.
- Undertaking due diligence.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will express an opinion.

Potential Threats Arising from the Provision of Corporate Finance and Transaction Services

All Audit Clients

610.3 A1 Providing corporate finance and transaction services to an audit client might create a self-review or advocacy threat when the results of the services impact the financial statements on which the firm will express an opinion.

610.4 A1 Factors that are relevant in evaluating the level of such threats created by providing corporate finance and transaction services to an audit client include:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance and transaction-related advice in the financial statements.

- The extent to which:
 - The outcome of the corporate finance and transaction-related advice will directly affect amounts recorded in the financial statements.
 - The outcome of the corporate finance and transaction service might have a material effect on the financial statements.
- Whether the effectiveness of the corporate finance and transaction-related advice depends on a particular accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Corporate Finance and Transaction Services that are Prohibited

R610.5 A firm or a network firm shall not provide corporate finance and transaction services to an audit client that involve promoting, dealing in, or underwriting the audit client's shares.

R610.6 A firm or a network firm shall not provide corporate finance and transaction-related advice to an audit client where:

- (a) The effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion; and
- (b) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit Clients that are Not Public Interest Entities

610.7 A1 Examples of actions that might be safeguards to address such threats for an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

Audit Clients that are Public Interest Entities

Self-review Threats

R610.8 A firm or a network firm shall not provide corporate finance and transaction services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Advocacy Threats

- 610.8 A1 An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance and transaction services to an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.

II. Proposed Revisions to Section 400

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

General

- R400.11** A firm performing an audit engagement shall be independent.
- R400.12** A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

Prohibition on Assuming Management Responsibilities

- R400.13** A firm or a network firm shall not assume a management responsibility for an audit client.
- 400.13 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.
- 400.13 A2 When a firm assumes a management responsibility for an audit client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interest of management.
- 400.13 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility, and therefore would not be assumed for audit clients include:
- Setting policies and strategic direction.
 - Hiring or dismissing employees.
 - Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.

- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
 - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - Designing, implementing, monitoring or maintaining internal control.
 - Performing network security and maintenance.

400.13 A4 Providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. (Ref: Para. 600.16 A1 to 600.16 A3).

R400. 14 The firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client’s management:

- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible always for the client’s decisions and to oversee the services. Such an individual, preferably within senior management, would understand:
 - (i) The objectives, nature and results of the services; and
 - (ii) The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the services.

- (b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client’s purpose.
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

[Paragraphs 400.15 to 400.19 are intentionally left blank]

Related Entities

R400.20 As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm’s independence from the client, the audit team shall include that related

entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 400.21 to 400.29 are intentionally left blank]

Period During which Independence is Required

All Audit Clients

R400.30 Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the financial statements.

400.30 A1 The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.

R400.31 If an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or
- (b) Previous services provided to the audit client by the firm or a network firm.

400.31 A1 Threats to independence are created if a non-assurance service was provided to an audit client during, or after the period covered by the financial statements, but before the audit team begins to perform the audit, and the service would not be permitted during the engagement period.

400.31 A2 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer review the audit and non-assurance work as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Audit Clients that are Public Interest Entities

R400.32 A firm shall not accept appointment as auditor of a public interest entity to which the firm or the network firm has provided a non-assurance service that would create a self-review threat

during the period covered by the financial statements on which the firm will express an opinion unless the provision of such service has ceased and:

- (a) The result of the service has been subject to testing by a firm outside of the network; or
- (b) Another entity or service provider outside of the network re-performs the service to the extent necessary to enable that entity or service provider to take responsibility for the service.

[Paragraphs 400.33 to 400.39 are intentionally left blank]