

Non-Assurance Services – Proposed Revised Provisions (Mark-Up from Exposure Draft)

Section 290

Provision of Non-Assurance Services to an Audit Client

Management Responsibilities

290.162 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical, ~~technological~~ and intangible resources.

290.163 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or ~~terminating~~dismissing employees.
- Directing, ~~supervising or~~ and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Supervising activities for the purpose of management oversight.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the 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 financial statements in accordance with the applicable financial reporting framework.
- Taking responsibility for designing, implementing or maintaining internal controls.

290.164 A firm shall not assume a management responsibility for an audit client. The threats created would be so significant that no safeguards could reduce the threats to an acceptable level. For example, deciding which recommendations of the firm to implement will create self-review and self-interest threats. Further, assuming a management responsibility creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management. Subject to compliance with paragraph 290.165, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

290.165 ~~When~~To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the responsibility of management. This includes ensuring that the client's management:

- Designates an individual, ~~preferably within senior management~~, who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. ~~A suitable~~Such an individual ~~should, preferably within senior management, would~~ understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
- Provides oversight of the services and evaluates the adequacy of the results of the services performed for the client's purpose; and
- Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

Administrative Services

290.166 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. Examples of administrative services include word processing services, preparing administrative or statutory forms for client approval, submitting such forms as instructed by the client, ~~sending notices for client meetings~~, monitoring statutory filing dates, and advising an audit client of those dates. Providing such services does not generally create a threat to independence. However, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. In addition, the firm shall be satisfied that the services would not result in assuming a management responsibility for the client and the requirements set forth in paragraph 290.165 is met.

Preparing Accounting Records and Financial Statements

General Provisions

- 290.167 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 within those policies.
 - Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).
 - Originating or changing journal entries, or determining or approving the account classifications of transactions.
- 290.168 Providing an audit client with accounting and bookkeeping services, such as preparing accounting records or financial statements, creates a self-review threat when the firm subsequently audits the financial statements.
- 290.169 The audit process, however, necessitates dialogue between the firm and management of the audit client, which may involve:
- The application of accounting standards or policies and financial statement disclosure requirements;

- The appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities; or
- Proposing adjusting journal entries;

These activities are considered to be a normal part of the audit process and do not, generally, create threats to independence so long as the client is responsible for making decisions in the preparation of the accounting records and financial statements.

290.170 Similarly, the client may request technical assistance from the firm on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client may request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another (for example, to comply with group accounting policies or to transition to a different financial reporting framework such as International Financial Reporting Standards). Such services do not, generally, create threats to independence provided the firm does not assume a management responsibility for the client.

Audit clients that are not public interest entities

290.171 The firm may provide services related to the preparation of accounting records and financial statements to an audit client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level. In addition, the firm shall be satisfied that the services would not result in assuming a management responsibility for the client and the requirements set forth in paragraph 290.165 are met. Services that are routine or mechanical in nature require little to no professional judgment from the professional accountant. ExamplesSome examples of such services includeare:

- ProvidingPreparing payroll servicescalculations or reports based on client-originated data for approval and payment by the client.
- Recording recurring transactions of a routine naturefor which amounts are easily determinable from source documents or originating data, such as a utility bill for whichwhere the client has determined or approved the appropriate account classification.
- Recording a transaction involving a significant degree of subjectivity, for example the valuation of an asset whenwhich the client has already determined the amount to be recorded, even though the transaction involves a significant degree of subjectivity.
- Calculating depreciation on fixed assets when the client providesdetermines the accounting policy and estimates of useful life and residual values.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing the related notes based on client-approved records.

In all cases, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Arranging for such services to be performed by an individual who is not a member of the audit team; or
- If such services are performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the work performed.

Audit clients that are public interest entities

290.172 A firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements.

290.173 Despite paragraph 290.172, a firm may provide accounting and bookkeeping services, including payroll services and the preparation of financial statements or other financial information, of a routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity if the personnel providing the services are not members of the audit team and:

- (a) The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or
- (b) The services relate to matters that are collectively immaterial to the financial statements of the division or related entity.

Taxation Services

Tax Calculation for the Purpose of Preparing Accounting Entries

Audit clients that are public interest entities

290.185 In the case of an audit client that is a public interest entity, a firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.

Section 291

Provision of Non-Assurance Services to an Assurance Client

- 291.140 Firms have traditionally provided to their assurance clients a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the independence of the firm or members of the assurance team. The threats created are most often self-review, self-interest and advocacy threats.
- 291.141 When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.
- 291.142 Before the firm accepts an engagement to provide a non-assurance service to an assurance client, a determination shall be made as to whether providing such a service would create a threat to independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration shall be given to any threat that the assurance team has reason to believe is created by providing other related non-assurance services. If a threat is created that cannot be reduced to an acceptable level by the application of safeguards the non-assurance service shall not be provided.

Management Responsibilities

- 291.143 Management responsibilities involve controlling, leading and directing an entity, including making ~~significant~~ decisions regarding the acquisition, deployment and control of human, financial, technological physical, ~~technological~~ and intangible resources.
- 291.144 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered a management responsibility include:
- Setting policies and strategic direction.
 - Hiring or ~~terminating~~dismissing employees.
 - Directing, ~~supervising or and~~ taking responsibility for the actions of employees in relation to the employees' work for the entity.
 - Authorizing transactions.
 - ~~Supervising activities for the purpose of management oversight.~~
 - Control or management of bank accounts or investments.
 - Deciding which recommendations of the firm or other third parties to implement.
 - Reporting to those charged with governance on behalf of management.
 - Taking responsibility for designing, implementing or maintaining internal controls.
- 291.145 In providing assurance services to an assurance client, a firm shall not assume a management responsibility as part of the assurance service. If the firm were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level.

If the firm assumes a management responsibility as part of any other services provided to the assurance client, the firm shall ensure that the responsibility is not related to the subject matter ~~and/or~~ subject matter information of ~~an/the~~ assurance engagement provided by the firm.

291.146 When providing services that are related to the subject matter or subject matter information of an assurance engagement provided by the firm, the firm shall be satisfied that client management makes all judgments and decisions relating to the subject matter or subject matter information of the assurance engagement that are the responsibility of management. This includes ensuring that the client's management:

- Designates an individual, ~~preferably within senior management,~~ who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. ~~A suitable~~Such an individual ~~should, preferably within senior management, would~~ understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
- Provides oversight of the services and evaluates the adequacy of the results of the services performed for the client's purpose; and
- Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

Other Considerations

291.147 Threats to independence may be created when a firm provides a non-assurance service related to the subject matter information of an assurance engagement. In such cases, an evaluation of the significance of the firm's involvement with the subject matter information of the engagement shall be made, and a determination shall be made of whether any self-review threats that are not at an acceptable level can be reduced to an acceptable level by the application of safeguards.

291.148 A self-review threat may be created if the firm is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement. For example, a self-review threat would be created if the firm developed and prepared prospective financial information and subsequently provided assurance on this information. Consequently, the firm shall evaluate the significance of any self-review threat created by the provision of such services and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.

291.149 When a firm performs a valuation that forms part of the subject matter information of an assurance engagement, the firm shall evaluate the significance of any self-review threat and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.

~~291.150 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. Examples of administrative services include preparing administrative or statutory forms for client approval, submitting such forms as instructed by the client, sending notices for client meetings, monitoring statutory filing dates, and advising an assurance client of those dates. Providing such services does not generally create a threat to independence.~~

~~However, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.~~