

Safeguards Phase 2—Section 600/Non-assurance Services (NAS)

Note: Text that is shaded in gray has been developed in conjunction with, and will be presented by the Structure TF.

Part 4A – International Independence Standards for Audits and Reviews

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Section 600

Provision of Non-assurance Services to an Audit Client

Introduction

600.1 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise.

600.2 Section 120 requires professional accountants to comply with the fundamental principles and, when performing audits or reviews, to be independent, and apply the conceptual framework to threats to independence. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence. Section 600 sets out requirements and application material relevant to applying the conceptual framework to independence when providing non-assurance services to audit clients.

Requirements and Application Material

General Provisions

- 600.3 A1 The requirements and application material in Section 600 assist firms in analyzing certain types of non-assurance services and the related threats that might be created when a firm or network firm accepts or provides non-assurance services to an audit client.
- 600.3 A2 New business practices, the evolution of financial markets and changes in information technology, are amongst the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an audit client. As a result, this Code does not include an exhaustive listing of all non-assurance services that might be provided to an audit client.
- 600.3 A3 Subsections 601-699 set out requirements and application material relevant to providing specific non-assurance services. In some cases, these subsections expressly prohibit a firm or network firm from providing certain services to an audit client because there can be no safeguards to eliminate the threats created or reduce them to an acceptable level. The subsections also set out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats created by providing non-assurance services.
- 600.3 A4 Factors that are important in evaluating the level of any threats created by providing a non-assurance service to an audit client include:

- The nature of the service, and the degree of reliance that will be placed on the outcome of that service as part of the audit.
- 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 extent of the audit client's involvement in determining and accepting its responsibilities for those matters where they involve significant professional judgment.
- The nature and extent of the impact of the service, if any, on the systems that generate information that form a significant part of the client's:
 - Accounting records or financial statements on which the firm will express an opinion; or
 - Internal controls over financial reporting.
- Whether the audit client is a public interest entity. For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of a threat.

Materiality in Relation to an Audit Client's Financial Statements

600.3 A5 Sections 600–699 refers to materiality in relation to an audit client's financial statements. The concept of materiality is addressed in ISA 320, *Materiality in Planning and Performing an Audit*. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

Considerations for When a Firm or Network Firm Provides Multiple Non-assurance Services to an Audit Client

600.4 A1 A firm or network firm might provide multiple non-assurance services to an audit client. When providing a non-assurance service to an audit client, the application of the conceptual framework requires that the firm consider any combined effect of threats created by the other non-assurance services provided to the audit client.

Considerations for When a Firm Provides Non-assurance Services to Certain Related Entities

R600.5 As an exception to the provisions of Subsections 600 to 699 a firm or network firm may provide non-assurance services that would otherwise be restricted by Subsections 601 to 699 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 that has 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 that is under common control with the client,
- provided 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; and
 - (ii) It is reasonable to conclude that:
 - a. The services do not create a self-review threat because the results of the services will not be subject to audit procedures; and
 - b. The firm applies the conceptual framework to eliminate any other threats created by providing the non-assurance service or reduce them to an acceptable level.

Considerations for When a Firm Provides Non-Assurance Services to an Audit Client that Later Becomes a Public Interest Entity

- R600.6** As an exception to subsections 601 to 699 if a firm or a network firm provides a non-assurance service to an audit client that later becomes a public interest entity, the independence of the firm is not compromised if:
- (a) The previous non-assurance service complies with the provisions of Sections 601 to 699 that relate to audit clients that are not public interest entities;
 - (b) Services that are not permitted under Sections 601 to 699 for audit clients that are public interest entities are terminated before, or as soon as practicable after, the client becomes a public interest entity; and
 - (c) The firm applies the conceptual framework to eliminate any threats that are created or reduce them to an acceptable level.

[Paragraphs 600.7 to 600.9 intentionally left blank for the purpose of the September 2016 meetings.]

Considerations for Avoiding the Assumption of Management Responsibilities

- R600.10** A firm or a network firm shall not assume a management responsibility for an audit client.
- 600.10 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.
- 600.10 A2 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 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 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 the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework;
 - For designing, implementing, monitoring and maintaining internal control.

600.11 A1 Providing a non-assurance service to an audit client creates self-review and self-interest threats if the firm assumes a management responsibility. Assuming a management responsibility also creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management.

600.11 A2 Subject to compliance with paragraph R600.10, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility.

R600.11 To avoid the risk of assuming management responsibility when providing non-assurance services to an audit client, the firm or a network 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 at all times 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 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; and

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

[Subsection 601 intentionally omitted for purposes of September 2016 meetings.]

Subsection 602 – Administrative Services

Introduction

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

602.2 Examples of administrative services include:

- Word processing services;
- Preparing administrative or statutory forms for client approval;
- Submitting such forms as instructed by the client;
- Monitoring statutory filing dates, and advising an audit client of those dates.

602.3 Providing administrative services to an audit client do not generally create a threat.

602.4 The requirements and application material set out in Section 600 are relevant to this subsection.

Subsection 603 – Accounting and Bookkeeping Services, Including Preparing Accounting Records and Financial Statements

Introduction

603.1 Providing accounting and bookkeeping services to an audit client might create a self-review threat.

603.2 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; and
 - Customer orders.
- Originating or changing journal entries, or determining the account classifications of transactions.

603.3 The audit process necessitates dialogue between the firm and 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; or
- Proposing adjusting journal entries.

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

603.4 Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for 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; or
- Transitioning to a different financial reporting framework such as International Financial Reporting Standards.

Such services do not usually create threats provided the firm does not assume a management responsibility for the client.

603.5 However, there are some circumstances in which providing accounting and bookkeeping services to an audit client is expressly prohibited and there can be no safeguards to eliminate or reduce threats created to an acceptable level. In cases when providing an accounting or bookkeeping service is not prohibited, the requirements and application material set out in Section 600 are relevant to this subsection. Subsection 603 sets out specific requirements and application material relevant to applying the conceptual framework when providing an audit client with accounting and bookkeeping services.

Requirements and Application Material

General Provisions

603.6 A1 Non-assurance services that are routine or mechanical in nature require little or no professional judgment by the professional accountant. 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; and
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

603.6 A2 Examples of actions that might be safeguards to address the self-review threats created when providing accounting and bookkeeping services to an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the accounting and bookkeeping service; or

- If such services are performed by an audit team member, using a partner or senior professionals who is not an audit team member, with appropriate expertise to review, and challenge as appropriate the work performed.

Audit Clients that Are Not Public Interest Entities

R603.7 A firm or a network firm shall not provide to an audit client that is not a public interest entity, services related to accounting and bookkeeping services, including payroll services, nor prepare financial statements on which the firm will express an opinion, or financial information which forms the basis of the financial statements unless:

- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any self-review or familiarity threat created.

603.7 A1 Paragraph R603.7 precludes a firm or a network firm from providing non-assurance services related to the preparation of accounting records and financial statements to an audit client that is not a public interest entity in certain circumstances. Even in circumstances where such services are not precluded, a self-review threat might still be created.

603.7 A2 A firm or network firm may provide non-assurance 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 and mechanical nature as long as any self-review threat created is reduced to an acceptable level.

Audit Clients that Are Public Interest Entities

R603.8 A firm or a network firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services, including payroll services, nor prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements.

R603.9 As an exception to paragraph R603.8, 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 audit team members 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.

603.9 A1 Examples of accounting and bookkeeping services that are routine or mechanical in nature are included in paragraph 603.6 A1.

Subsection 604 – Valuation Services

Introduction

- 604.1 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 a business as a whole.
- 604.2 Providing valuation services to an audit client might create a self-review threat.
- 604.3 In some circumstances, providing certain valuations services to an audit client is expressly prohibited and there can be no safeguards to eliminate or reduce threats created to an acceptable level. In cases when providing a valuation service is not prohibited, the requirements and application material set out in Section 600 are relevant to this subsection. Subsection 604 sets out specific requirements and application material relevant to applying the conceptual framework when providing a valuation service to an audit client.

Requirements and Application Material

General Provisions

- 604.4 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.
- 604.4 A2 If a 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 application material set out in paragraphs 605.10A1–605.10 A4, relating to such services apply.
- 604.4 A3 Factors that are important in evaluating the level of any threat created by providing valuation services to an audit client include:
- 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 could create significant volatility inherent in the amounts involved.
- 604.4 A4 Examples of actions that might be safeguards to address the self-review threats created when providing valuation services to an audit client include:
- Using professionals who are not audit team members to perform the valuation services service; or

- Having a professional who was not involved in providing the valuation service review the audit or valuation work performed.

Audit Clients that Are Not Public Interest Entities

R604.5 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 will have a material effect on the financial statements on which the firm will express an opinion; and
- (b) The valuation involve a significant degree of subjectivity.

Audit Clients that Are Public Interest Entities

R604.6 A firm or a network firm shall not provide valuation services to an audit client that is a public interest entity if the valuation services would have a material effect, separately or in the aggregate, on the financial statements on which the firm will express an opinion, regardless of the degree of subjectivity involved.

Subsection 605 – Taxation Services

Introduction

605.1 Taxation services comprise a broad range of services, including:

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

While this subsection deals with different types of taxation services described above separately under separate headings, in practice, the activities involved in providing taxation services are often interrelated.

605.2 Providing taxation services to an audit client might create a self-review or advocacy threat.

605.3 In some circumstances, providing certain taxation services to an audit client is expressly prohibited and there can be no safeguards to eliminate or reduce threats created to an acceptable level. In cases when providing a taxation service is not prohibited, the requirements and application material set out in Section 600 are relevant to this subsection. Subsection 605 sets out specific requirements and application material relevant to applying the conceptual framework when providing a taxation service to an audit client.

Requirements and Application Material

605.4 A1 Factors that are important in evaluating the level of any threat created by providing all taxation services to audit clients 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 in that process; and
- The complexity of the relevant tax regime and the degree of judgment necessary in applying it.

Tax Return Preparation

- 605.5 A1 Tax return preparation services involve 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. Such services also include 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, including providing explanations of and technical support for the approach being taken).
- 605.5 A2 Tax return preparation services are usually based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority considers appropriate. Paragraph R600.10 precludes a firm or network firm from assuming a management responsibility when providing tax return preparation services. Providing tax return preparation services do not usually create a threat if management takes responsibility for the returns including any significant judgments made.

Tax Calculations for the Purpose of Preparing Accounting Entries

General Provisions

- 605.6 A1 Preparing calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that will be subsequently audited by the firm creates a self-review threat.
- 605.6 A2 Factors that are important in evaluating the level of any threat created by preparing tax calculations for the purpose of preparing accounting entries for an audit client include:
- The complexity of the relevant tax law and regulation and the degree of judgment necessary in applying them;
 - The level of tax expertise of the client's personnel; and
 - The materiality of the amounts to the financial statements.
- 605.6 A3 Examples actions that might be safeguards to address self-review or advocacy threats created when providing tax calculations for the purpose of preparing accounting entries for an audit client that is not a public interest entity include:
- Using tax professionals who are not audit team members to perform the tax service; or
 - If the service is performed by an audit team member, using a professional who is not an audit team member, with appropriate expertise to challenge as appropriate, the tax calculations.
 - Obtaining advice on the service from a professional.

Audit Clients that are Public Interest Entities

R605.7 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 that are material to the financial statements on which the firm will express an opinion.

Tax Planning and Other Tax Advisory Services

General Provisions

605.8 A1 Tax planning or other tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

605.8 A2 A self-review threat might be created where the tax advice will affect matters to be reflected in the financial statements.

605.8 A3 Factors that are important in evaluating the level of any threat created by providing tax advice to audit clients include:

- The level of tax expertise of the client's employees;
- 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 planning and other tax advisory services is:

- Clearly supported by tax authority or other precedent,
- Established practice, or
- Has a basis in tax law that is likely to prevail.
- The extent to which the advice is supported by tax law or regulation, other precedent or established practice;
- The extent to which the outcome of the tax advice will have a material effect on the financial statements; and
- 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.

605.8 A4 Examples of actions that might be safeguards to address self-review threats created when providing tax planning and other tax advisory services include:

- Using tax professionals who are not audit team members to perform the tax service;

- Having a professional, who was not involved in providing the tax service, advise the audit team on the service and review the financial statement treatment;
- Obtaining advice on the service from a professional; or
- Obtaining pre-clearance or advice from the tax authorities.

R605.9 A firm or a network firm shall not provide taxation advisory services to an audit client when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

- (a) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion.

Taxation Services Involving Valuations

605.10 A1 If a firm performs a 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, the provisions set out in Subsection 603 relating to valuation services apply.

605.10 A2 A valuation might be performed for tax purposes only 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.

605.10 A3 If the valuation that is performed for tax purposes is not subject to such an external review and the effect is material to the financial statements, the following factors are important to evaluating the level of any threat created by providing those services to an audit client:

- 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; or
- The reliability and extent of the underlying data.

605.10 A4 Examples actions that might be safeguards to address self-review or advocacy threats when providing taxation services involving valuations include:

- Using tax professionals who are not audit team members to perform the service;
- Having a professional review the audit work or the result of the tax service; or
- Obtaining pre-clearance or advice from the tax authorities.

Assistance in the Resolution of Tax Disputes

605.11 A1 A tax dispute may reach a point when the tax authorities have notified an audit 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 tribunal or

court. An advocacy or self-review threat might be created when the firm or the network firm represents an audit client in the resolution of such a tax dispute.

R605.12 A firm or a network firm shall not provide taxation services that involve providing assistance in the resolution of tax disputes to an audit client if:

- (a)** The services involve acting as an advocate for the audit client before a public 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.

605.12 A1 What constitutes a “public tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

605.12 A2 Paragraph R605.12 does not preclude a firm from having a continuing advisory role in relation to the matter that is being heard before a public tribunal or court, for example:

- (a) Responding to specific requests for information;
- (b) Providing factual accounts or testimony about the work performed; or
- (c) Assisting the client in analyzing the tax issues for the audit client.

605.12 A3 Factors that are important in evaluating the level of any threat created by having a role in the resolution of tax disputes having reached the level of a formal proceeding for an audit client 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 which is the subject of the tax dispute has been provided by either the firm or network firm;
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice; and
- Whether the proceedings are conducted in public.

605.12 A4 Examples of actions that might be safeguards to address self-review or advocacy threats created by having a role in the resolution of tax disputes include:

- Using professionals who are not audit team members to perform the service;
- Having a professional, who was not involved in providing the tax service, advise the audit team on the service and review the financial statement treatment; or
- Obtaining advice on the service from a tax professional.

Subsection 606 – Internal Audit Services

Introduction

- 606.1 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; and
 - 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; and
 - Reviewing compliance with:
 - Laws, regulations and other external requirements, and
 - Management policies and directives and other internal requirements.
- 606.2 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.
- 606.3 The provision of internal audit services to an audit client creates a self-review threat if the firm uses the internal audit work in the course of a subsequent external audit.
- 606.4 In some circumstances, providing certain internal audit services is expressly prohibited and there can be no safeguards to eliminate or reduce threats created to an acceptable level. In cases when providing an internal audit service is not prohibited, the requirements and application material set out in Section 600 are relevant to this subsection. Subsection 606 sets out specific requirements and application material relevant to applying the conceptual framework when providing an internal audit service to an audit client.

Requirements and Application Material

General Provisions

- R606.5** Paragraph R600.10 precludes a firm or a network firm from assuming a management responsibility when providing an internal audit service to an audit client. 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, 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.

606.5 A1 Performing a significant part of the client's internal audit activities increases the possibility that firm personnel providing internal audit services will assume a management responsibility. If the firm's personnel assume a management responsibility when providing internal audit services to an audit client, the threat created cannot be eliminated or reduced to an acceptable level by applying a safeguard.

606.5 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; and
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the 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.

606.5 A3 Factors that are important in evaluating the level of any threat created by providing internal audit services to an audit client include:

- The materiality of the related financial statement amounts;
- The risk of misstatement of the assertions related to those financial statement amounts; and
- The degree of reliance that will be placed on the internal audit service.

- 606.5 A4 When a firm uses the work of an internal audit function in an audit engagement, International Standards on Auditing require the performance of procedures to evaluate the adequacy of that audit work. When a 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:
- Appropriately evaluating those results; or
 - 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.
- 606.5 A5 An example of an action that might be a safeguard to address self-review threats created by providing internal audit services is using professionals who are not audit team members to perform the internal audit service.

Audit Clients that Are Public Interest Entities

- R606.6** A firm or a network firm shall not provide internal audit services to an audit client that is a public interest entity, if the services relate to:
- (a) A significant part of the internal controls over financial reporting;
 - (b) Financial accounting systems that generate information that is, separately or in the aggregate, material to the client's accounting records or financial statements on which the firm will express an opinion; or
 - (c) Amounts or disclosures that are, separately or in the aggregate, material to the financial statements on which the firm will express an opinion.

Subsection 607 – Information Technology Systems Services

Introduction

- 607.1 Services related to information technology (IT) systems include the design or implementation of hardware or software systems. The IT systems might:
- (a) Aggregate source data;
 - (b) Form part of the internal control over financial reporting; or
 - (c) Generate information that affects the accounting records or financial statements, including related disclosures.
- However, the IT systems also involve matters that are unrelated to the audit client's accounting records or the internal control over financial reporting or financial statements.
- 607.2 Providing IT systems services to an audit client might create a self-review threat depending on the nature of the services and the IT systems.
- 607.3 In some circumstances, providing certain IT services is expressly prohibited and there can be no safeguards to eliminate or reduce threats created to an acceptable level. In cases when providing an IT service is not prohibited, the requirements and application material set out in Section 600 are relevant to this subsection. Subsection 607 sets out specific requirements and

application material relevant to applying the conceptual framework when providing an IT service to an audit client.

Requirements and Application Material

General Provisions

607.4 A1 Paragraph R600.10 precludes a firm or a network firm from assuming a management responsibility when providing an IT to an audit client. Providing the following IT systems services to an audit client does 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 IT systems that are unrelated to internal control over financial reporting;
- (b) Designing or implementing IT systems that do not generate information forming a significant part of the accounting records or financial statements;
- (c) Implementing “off-the-shelf” accounting or financial information reporting software that was not developed by the firm, if the customization required to meet the client’s needs is not significant; and
- (d) Evaluating and making recommendations with respect to a system designed, implemented or operated by another service provider or the client.

R607.5 If a firm or network firm determines that it is permitted to provide an IT systems service to an audit client, the firm or the network firm shall determine whether to provide that service only with personnel who are not audit team members and who have different reporting lines from the audit team members.

607.5 A1 The determination to be made in paragraph R607.5 depends on the degree of reliance that will be placed on the particular IT systems as part of the audit.

607.5A2 An example of an action that might be a safeguard to address self-review threats created when providing IT systems services to an audit client is using professionals who are not audit team members to perform the service.

Audit Clients that Are Not Public Interest Entities

R607.6 A firm or a network firm shall not provide an IT systems service to an audit client that is not a public interest entity if the service involves the design or implementation of IT systems that:

- (a) Form a significant part of the internal control over financial reporting; or
- (b) Generate information that is significant to the client’s accounting records or financial statements on which the firm will express an opinion,

unless appropriate policies and procedures are put in place ensuring that:

- (i) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;

- (ii) 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;
- (iii) The client makes all management decisions with respect to the design and implementation process;
- (iv) The client evaluates the adequacy and results of the design and implementation of the system; and
- (v) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

Audit Clients that Are Public Interest Entities

R607.7 A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the services involve designing or implementing IT systems that:

- (a) Form a significant part of the internal control over financial reporting; or
- (b) Generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion.

Subsection 608 – Litigation Support Services

Introduction

- 608.1 Litigation support services might include activities such as:
- Assisting with document management and retrieval;
 - Acting as an expert witness; and
 - Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.
- 608.2 Providing litigation support services to an audit client might create a self-review or advocacy threat.
- 608.3 The application material set out in Section 600 are relevant to this subsection. Subsection 608 sets out specific application material relevant to applying the conceptual framework when providing a litigation support service to an audit client.

Application Material

- 608.4 A1 The type and level of the threat created varies based on the type of litigation support service. 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 604 related to valuation services apply.

- 608.4 A2 A factor that is important in evaluating the level of any threat created by providing litigation support services to an audit client is the legal and regulatory environment in which the service is provided.

Subsection 609 – Legal Services

Introduction

- 609.1 Legal services are defined as any services for which the individual providing the services must either:

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

Depending on the jurisdiction, legal services might include a wide and diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition, legal advice and support and assistance to clients' internal legal departments.

- 609.2 Providing legal services to an audit client might create a self-review or advocacy threat.
- 609.3 Legal services that support an audit client in executing a transaction might create self-review threats.
- 609.4 Acting in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are not material to the financial statements on which the firm will express an opinion might create advocacy and self-review threats.
- 609.5 In some circumstances, providing certain legal services is expressly prohibited and there can be no safeguards to eliminate or reduce threats created to an acceptable level. In cases when providing a legal service is not prohibited, the requirements and application material set out in Section 600 are relevant to this subsection. Subsection 609 sets out specific requirements and application material relevant to applying the conceptual framework when providing a legal service to an audit client.

Requirements and Application Material

- 609.6 A1 Examples of legal services that support an audit client in executing a transaction might be contract support, legal advice, legal due diligence and restructuring.
- 609.6 A2 Factors that are important in evaluating the level of any threats created by providing legal services to an audit client in executing a transaction (see paragraph 609.6 A1) include:
- The nature of the service;
 - Whether the service is provided by an audit team member; and
 - The materiality of any matter in relation to the client's financial statements.
- 609.6 A3 Examples of actions that might be safeguards to address self-review and advocacy threats created when providing legal services include:
- Using professionals who are not audit team members to perform the service; or

- Having a professional who was not involved in providing the legal services advise the audit team on the service and review any accounting treatment and any financial statement treatment.

R609.7 A firm or a network firm shall not act in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion.

R6098 A partner or employee of the firm or the network firm shall not accept an appointment as General Counsel for legal affairs of an audit client.

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

Subsection 610 – Recruiting Services

Introduction

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

610.2 In some circumstances providing recruiting services to an audit client is expressly prohibited and there can be no safeguards to eliminate or reduce threats created to an acceptable level. In cases when providing a recruiting service is not prohibited, the requirements and application material set out in Section 600 are relevant to this subsection. Subsection 610 sets out specific requirements and application material relevant to applying the conceptual framework when providing recruiting services to an audit client.

Requirements and Application Material

610.4 A1 Factors that are important in evaluating the level of any threat created by providing recruiting services to an audit client include:

- The nature of the requested assistance; and
- The role of the individual to be recruited.

610.4 A2 Examples actions that might be safeguards to address self-interest, familiarity or intimidation threats created by providing recruiting services include:

- Using professionals who are not audit team members to perform the service; or
- Having a recruiting services professional not involved in performing the service review the service.

R610.5 A firm or a network firm shall not provide a recruiting service to an audit client with respect to a director or officer of the entity or 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 if the service involves:

- (a) Searching for or seeking out candidates for such positions; and
- (b) Undertaking reference checks of prospective candidates for such positions.

R610.6 Paragraph R600.10 precludes a firm or a network firm from assuming a management responsibility when providing a recruiting service to an audit client. 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, and the hiring decision shall be made by the client.

610.6 A1 Providing the following services does not usually create threats:

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

Subsection 611 – Corporate Finance Services

Introduction

611.1 Providing corporate finance services to an audit client might create an advocacy or self-review threat.

611.2 In some circumstances providing corporate finance services to an audit client is expressly prohibited and there can be no safeguards to eliminate or reduce threats created to an acceptable level. In cases when providing a corporate finance service is not prohibited, the requirements and application material set out in Section 600 are relevant to this subsection. Subsection 611 sets out specific requirements and application material relevant to applying the conceptual framework when providing a corporate finance services to an audit client.

Requirements and Application Material

611.3 A1 Examples of corporate finance services that might create a threat include:

- Assisting an audit client in developing corporate strategies;
- Identifying possible targets for the audit client to acquire;
- Advising on disposal transactions;
- Assisting finance raising transactions;
- Providing structuring advice; and
- 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.

611.3 A2 Factors that are important in evaluating the level of any threat created by providing corporate finance 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 advice in the financial statements;
- The extent to which:
 - The outcome of the corporate finance advice will directly affect amounts recorded in the financial statements; and

- The amounts are material to the financial statements; and
- Whether the effectiveness of the corporate finance 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.

611.3 A3 Examples actions that might be safeguards to address advocacy or self-review threats created by providing a corporate finance service to an audit client include:

- Using professionals who are not audit team members to perform the service; or
- Having professional who was not involved in providing the corporate finance service advise the audit team on the service and review the accounting treatment and any financial statement treatment.

R611.4 A firm or a network firm shall not provide corporate finance services to an audit client that involve promoting, dealing in, or underwriting the audit client's shares.

R611.5 A firm or a network firm shall not provide corporate finance advice to an audit client where the effectiveness of corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and:

- (a)** The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b)** The outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion.