

**Meeting:** IESBA CAG  
**Meeting Location:** New York  
**Meeting Date:** March 10, 2021

## Agenda Item

# A-3

### Report Back – Non-Assurance Services (NAS)

#### Objective of Agenda Item

1. To note the report-back on the September 2020 CAG discussion.

#### Project Status and Timeline

2. The project to revise the NAS provisions of the Code was a prioritized commitment in the IESBA's [Strategy and Work Plan, 2019-2023](#). It responded to a number of legal and regulatory developments aimed at addressing issues affecting auditor independence, including audit firms' provision of NAS to audit clients.
3. The project, which was approved in September 2018, was informed by the [feedback](#) received on a Briefing Paper, [Non-Assurance Services – Exploring Issues to Determine a Way Forward](#), that was discussed at four global roundtables,<sup>1</sup> as well as advice from the IESBA CAG. The IESBA also took into account the suggestions it received from respondents to its December 2015 Exposure Draft (ED), [Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#), January 2017 ED, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments](#), and November 2017 [Fees Questionnaire](#).

#### NAS ED

4. In January 2020, the IESBA proposed revisions to the [International Independence Standards \(IIS\)](#), especially those that apply to public interest entity (PIE) audit clients. These proposals were set out in two Exposure Drafts, [Proposed Revisions to the Non-Assurance Services Provisions of the Code](#) (NAS ED) and [Proposed Revisions to the Fee-Related Provisions of the Code](#) (Fees ED). Collectively, these proposals responded to specific Public Interest Oversight Board (PIOB) and regulatory concerns as well as growing public perceptions about the need to reinforce auditor independence.
5. [Sixty-six comment letters](#) were received on the NAS ED across a wide range of stakeholder groups and geographical regions, including two Monitoring Group (MG)<sup>2</sup> members, other regulators and

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<sup>1</sup> About 150 senior-level delegates representing a wide range of stakeholder groups (including investors, regulators, public sector representatives, preparers, TCWG, NSS, regional and international organizations, and representatives of the accountancy profession (both those in public practice and in business) participated in or observed the IESBA's roundtables. The roundtables were held in Washington, DC, U.S.A.; Paris, France; Tokyo, Japan; and Melbourne, Australia in June/July 2018.

<sup>2</sup> The MG respondents were International Forum of Independent Audit Regulators (IFIAR) and International Organization of Securities Commissions (IOSCO).

audit oversight bodies, professional accountancy organizations (PAOs),<sup>3</sup> independent national standard setters,<sup>4</sup> firms, public sector organizations, preparers and TCWG, and others.

6. During the September 2020 meeting, CAG Representatives were provided an overview of the key comments received on the NAS ED and discussed the Task Force's proposals to address them.
7. The Appendix to this paper provides a history of previous discussions with the CAG on this topic.

#### *Approval of Final Pronouncement*

8. At its November/ December 2020 meeting, the IESBA revised its proposals to address the significant matters raised by respondents to the ED, taking into account the input provided by CAG Representatives, and approved the final NAS provisions. The NAS pronouncement is expected to be released by the end of April 2021, subject to PIOB approval of the revised NAS provisions. The provisions will be effective for audits and reviews of financial statements for periods beginning on or after December 15, 2022. Early adoption is permitted.

***CAG Member Organizations are strongly encouraged to join the IESBA in promoting awareness of the revised NAS provisions to support their adoption and implementation.***

#### *Highlights of Revised NAS Provisions*

4. The revised NAS provisions contain substantive revisions that will enhance the IIS by clarifying and addressing the circumstances in which firms and network firms may or may not provide a NAS to an audit or assurance client. The revised provisions include new requirements that expressly prohibit firms and network firms from providing certain types of NAS to their audit clients, especially when they are PIEs.<sup>5</sup> Key changes to the extant IIS include:
  - A new general prohibition on the provision of a NAS to an audit client that is a PIE if the provision of that service might create a self-review threat to the firm's independence.
  - New provisions to assist firms and network firms in identifying and evaluating self-review threats that might be created by the provision of a NAS to an audit client.

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<sup>3</sup> For purpose of analyzing its comment letters, the IESBA deems a PAO to be a member organization of professional accountants, of firms, or of other PAOs. PAOs include but are not limited to members of the International Federation of Accountants (IFAC). PAOs might have full, partial, or shared responsibility for setting national ethics standards, including independence requirements, in their jurisdictions.

<sup>4</sup> Independent NSS have a mandate to set national audit and ethics standards, including independence requirements and do not belong to PAOs.

<sup>5</sup> The extant Code defines a PIE as:

(a) A listed entity; or

(b) An entity:

(i) Defined by regulation or legislation as a PIE; or

(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

As further discussed below, in January 2021, the IESBA released an Exposure Draft with proposals that include a revised definition of PIE. See section V for a discussion on the effective dates for the revised NAS provisions and the proposed PIE definition.

- New guidance on the circumstances in which a firm or a network firm may provide advice and recommendations to an audit client.
- New provisions to strengthen and improve the quality of firm communication with those charged with governance (TCWG) about NAS-related matters, especially in the case of audit clients that are PIEs and entities within that PIE’s corporate structure.
- Enhanced guidance on the relevance of the concept of materiality when applying the NAS provisions, especially when evaluating self-review threats for audit clients that are PIEs.
- Strengthened provisions to assist firms in addressing threats to independence that are created by the provision of NAS to audit clients that are not PIEs, including new application material in relation to situations where a safeguard is not available.
- New provisions and structural refinements to promote the consistent application of the NAS provisions. For example:
  - The revised NAS provisions identify certain situations where a self-review threat to independence is not created.
  - The provisions that prohibit firms and network firms from assuming a management responsibility have been given more prominence by being repositioned to the general Section 400.<sup>6</sup>
  - The provisions related to acting as a witness have been revised and include application material to explain the circumstances in which the advocacy threat created by acting as an expert witness will be at an acceptable level.

### Report Back on September 2020 CAG Discussion

9. Below are extracts from the draft minutes of the September 2020 CAG meeting<sup>7</sup> and an indication of how the Task Force or the IESBA has responded to the CAG’s comments.

Matters Raised	Task Force/IESBA Response
COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE	
Ms. Landell-Mills commented that the Task Force’s proposal concerning communication with TCWG in relation to the provision of NAS to related entities which the PIE audit client does not control, lacked transparency from the investor perspective. She was of the view that an increased level of transparency would ensure a higher level of rigor in terms of handling potential independence conflicts and help strengthen public trust.	Point accepted.  The final NAS provisions specify requirements for firm communication with TCWG about NAS that are to be provided to (i) the PIE; (ii) any entity that controls that PIE, directly or indirectly; or (iii) any entity that is controlled directly or indirectly by that PIE. Paragraphs R600.21 to R600.22 of the final provisions indicate that unless otherwise addressed by a pre-determined process agreed between the firm and TCWG, the firm is required to:

<sup>6</sup> Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

<sup>7</sup> The draft September 2020 minutes will be approved at the March 2021 IESBA CAG meeting.

Matters Raised	Task Force/IESBA Response
	<p>(a) Inform TCWG of the PIE that the firm has determined that the provision of the NAS is not prohibited and will not create a threat to the firm’s independence, or that any identified threat is at an acceptable level.</p> <p>(b) Provide TCWG of the PIE with information to enable them to make an informed assessment about the impact of the provision of the NAS on the firm’s independence.</p> <p>The IESBA is of the view that the revised NAS provisions will establish a mechanism whereby TCWG can corroborate the firm’s evaluation of the impact of the proposed NAS to be provided to the parent entity on its independence. The IESBA envisages that over time, the revised provisions will improve the nature of the dialogue between the firm and TCWG, thereby increasing the level of transparency about auditor independence more broadly.</p>
<p>Mr. Hansen asked whether the Task Force had thought about the situation where a NAS is provided to the PIE audit client but is paid for by a related entity. He was concerned about the lack of transparency in this situation.</p>	<p>Point accepted.</p> <p>As discussed above, the IESBA determined that it is the responsibility of TCWG of the PIE audit client to determine whether the firm should provide a NAS to (i) the PIE; (ii) any entity that controls that PIE, directly or indirectly; or (iii) any entity that is controlled directly or indirectly by that PIE.</p> <p>Even when the NAS might not be expressly prohibited under the general self-review threat prohibition, the firm is required to evaluate the independence implications of providing that NAS under the related entity provision in extant paragraph R400.20. Further, a firm would be in breach of one of the five fundamental principles of ethics (i.e., subsection <a href="#">111</a>, <i>Integrity</i>)<sup>8</sup> if it accepted a NAS engagement which had been scoped to intentionally circumvent any requirement. Finally, the IESBA notes that the revised fee-related provisions have introduced enhanced transparency requirements with respect to</p>

<sup>8</sup> The descriptions of four of the five fundamental principles of ethics, including integrity were revised as part of the IESBA’s Role and Mindset Expected of Professional Accountants project. That [final pronouncement](#) was released in October 2020 and will be effective in December 2021.

Matters Raised	Task Force/IESBA Response
	communication of fee-related matters to TCWG of the PIE.
<p>Mr. Munter observed that increasingly, PIE audit clients sit within a large private equity structures, meaning that the threats to independence arising from the provision of NAS to related entities under direct versus indirect control of the PIE audit client could be viewed differently based on one's perspective.</p>	<p>Point noted. See responses to comments above re provision of NAS to related entities of a PIE audit client.</p> <p>The Task Force has also referred this observation to the NAS and Fees Rollout Working Group for their further consideration as part of their awareness raising activities, including as a possible topic that might be addressed in an IESBA staff Q&amp;A publication.</p>
SAFEGUARDS	
<p>Mr. Hansen noted that for PIE audits, he did not agree with having another professional within the same firm review or perform the NAS because professional accountants within the same firm rely on the firm's quality management policies and procedures, hence generating a level of implicit trust. He commented that in his experience in the US, it is typical that professional accountants within the same firm are not used as a safeguard. However, he did not disagree with the use of this safeguard for non-PIE audits. Ms. Landell-Mills echoed the comments made.</p> <p>Ms. Mubarak commented that having another professional within the same firm as a safeguard is common in her jurisdiction, despite the regulators in her jurisdiction having mixed views on its effectiveness. She further noted that there are no laws or regulations that prohibit the practice.</p> <p>Mr. Thompson noted the importance of the provisions being proportionate. He added that this safeguard has been longstanding and withdrawing it would create significant difficulties for smaller firms and entities.</p>	<p>Points taken into account.</p> <p>The IESBA determined that the NAS safeguards should be retained. In the case of audit clients that are PIEs, the introduction of the self-review threat prohibition and the additional restrictions on the provision of NAS that might create an advocacy threat (e.g., when acting as witness) will substantially reduce the types of NAS in respect of which a firm may be permitted to apply safeguards to reduce threats to independence to an acceptable level.</p> <p>In addition, the final NAS provisions build on the concepts already established in the extant Code which incorporates safeguard-related enhancements. In finalizing its Safeguards project in 2017, the IESBA extensively deliberated the adequacy of NAS safeguards to address stakeholder concerns about such adequacy. These changes are reflected in the extant Code which came into effect in June 2019 and include:</p> <ul style="list-style-type: none"> <li>• Explicit language which clarifies the importance proper application of the conceptual framework to determine whether a safeguard is available and capable of addressing a threat to independence. New application material explains that in some circumstances, safeguards might not be available and that in some situations the threat to independence might necessitate the firm declining the NAS or ending the audit engagement.</li> </ul>

Matters Raised	Task Force/IESBA Response
	<ul style="list-style-type: none"> <li>• A new description of safeguards which clarifies that an action is a safeguard only when it is <i>effective</i> in reducing a threat to an acceptable level.</li> <li>• New application material that explains that an “appropriate reviewer” is an individual who has the (i) authority and (ii) knowledge, skills and experience to review work in an objective manner and that that individual may be external to the firm or employed by the firm.</li> </ul>
<p>PROHIBITION ON NAS THAT MIGHT CREATE A SELF-REVIEW THREAT</p>	
<p>Mr. Hansen commented that the revised NAS proposals were well-thought out and responsive to the feedback received on the ED.</p>	<p>Support noted.</p>
<p>PROVIDING ADVICE AND RECOMMENDATIONS</p>	
<p>Mr. Hirai questioned the interaction between the “audit process” specified in the extant paragraph 601.2 A2 and the Task Force’s revised proposals on the provision of advice and recommendations.</p>	<p>Point accepted.</p> <p>The final NAS provisions include clarifications to the provisions relating to the provision of advice and recommendations to audit clients. The provisions explain that providing advice and recommendations to audit clients might create self-review threats to independence and that in the case of audit clients that are PIEs, such advice and recommendations are generally prohibited (see paragraph 600.11 A1).</p> <p>The IESBA, however, resolved to provide an exemption to allow for the provision of advice and recommendations to audit clients that are PIEs in relation to information or matters arising in the course of an audit (see paragraph R600.17).</p> <p>In addition, examples of advice and recommendations that might be provided in relation to information or matters arising in the course of an audit have been provided in new application material. The application material is adapted from the examples of activity that might arise as</p>

Matters Raised	Task Force/IESBA Response
	part of the dialogue between management and the firm during the course of an audit. <sup>9</sup>
<p>Mr. Dalkin expressed support for the revised proposals on the provision of advice and recommendations but observed that they could also be seen as an exemption from the prohibition of NAS that might create a self-review threat. Specifically, he questioned when advice and recommendations would turn into authoritative guidance, such as in situations where a new technical standard has been issued and the auditor is asked by the client to help provide education on the standard or help with the preparation of relevant financial statement disclosures. Accordingly, he suggested the need for some guardrails around the provision of advice and recommendations.</p>	<p>Point accepted.</p> <p>As explained above, the final NAS provisions include an exemption to allow for the provision of advice and recommendations to audit clients that are PIEs in relation to information or matters arising in the course of an audit (see paragraph R600.17) provided the following strict conditions are met.</p> <ul style="list-style-type: none"> <li>• The firm does not assume a management responsibility. For enhanced clarity a cross-reference to the relevant management responsibility provisions set out in paragraphs R400.13 to R400.14 has been added at paragraph R600.17.</li> <li>• The firm applies the conceptual framework to identify, evaluate and address threats, other than self-review threats.</li> </ul>
TAX PLANNING	
<p>Ms. Landell-Mills voiced a concern that replacing “significant purpose” with “principal purpose” in the revised NAS proposals would weaken the requirement in paragraph R604.4 because even if the tax planning does not have the principal purpose of tax avoidance, it could still be a significant purpose.</p>	<p>Point accepted.</p> <p>The term “significant purpose” has been retained in paragraph R604.4 of the final NAS provisions.</p>
<p>Mr. Kashiwagi expressed the PIOB’s support for the use of the phrase “likely to prevail” in paragraph R604.4.</p>	<p>Support noted.</p> <p>The final NAS provisions retain the term “likely to prevail” and include clarifications to ensure that the threshold to be met is appropriately robust. Paragraphs R604.4, 604.4 A1 and 604.12 A2 of the final provisions state that “... unless the firm is <u>confident</u> that the proposed treatment</p>

<sup>9</sup> In the extant Code and the NAS ED, these examples were included in subsection 601, *Accounting and Bookkeeping Services*. They have been repositioned to be closer to the exception for the provision of advice and recommendations in relation to information or matters arising from the audit (see paragraphs R600.17 and 600.17 A1).

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Matters Raised	Task Force/IESBA Response
	has a basis in applicable tax law or regulation that is likely to prevail.”
OTHER MATTERS	
Ms. Robert reminded the Task Force to adhere to the Structure drafting conventions.	Point accepted.  In finalizing the NAS provisions, the IESBA staff and the Task Force undertook a comprehensive review of the NAS text and concluded that it adheres to the <a href="#">December 2017 drafting conventions</a> . For example, duplication of material is generally avoided except in limited instances where the IESBA deems that such repetition will enhance clarity or provide emphasis.
Mr. Kashiwagi expressed thanks for the presentation and noted that the PIOB supported the Task Force’s revised NAS proposals.  Ms. Mubarak also expressed thanks for the detailed presentation on the revised NAS proposals. She expressed support for the proposals, which she considered would be very helpful to the regulators in her jurisdiction when published.	Support noted.

<b>Material Presented – FOR IESBA CAG REFERENCE PURPOSES ONLY</b>	
Approved Revisions to the Code’s NAS Provisions <sup>10</sup>	<a href="http://www.ifac.org/system/files/meetings/files/Agenda-Item-2B-Updated-X3-Revised-NAS-Provisions-Approved-Text.pdf">www.ifac.org/system/files/meetings/files/Agenda-Item-2B-Updated-X3-Revised-NAS-Provisions-Approved-Text.pdf</a>

<sup>10</sup> The final NAS pronouncement will be released in late April 2020 after the IESBA receives confirmation of the PIOB’s approval of the revised NAS provisions.

**Appendix 1**

**Project History Summary: NAS**

	CAG Meeting	IESBA Meeting
Information gathering/ Discussion	<a href="#">March 2018</a>	<a href="#">March 2018</a>
<a href="#">NAS discussion paper</a> considered at global roundtables in June – July 2018		
Project commencement, including: <ul style="list-style-type: none"> <li>• Consideration of feedback from roundtables</li> <li>• Approval of project proposal</li> </ul>	<a href="#">September 2018</a>	<a href="#">June 2018</a> <a href="#">September 2018</a>
Development of proposed international pronouncement (up to exposure)	<a href="#">March 2019</a> <a href="#">September 2019</a> <a href="#">March 2020</a>	<a href="#">December 2018</a> <a href="#">March 2019</a> <a href="#">June 2019</a> <a href="#">September 2019</a> <a href="#">December 2019</a>
ED issued and available on <a href="#">IESBA Website</a> since January 2020; comment deadline June 4, 2020		
Consideration of responses to ED	<a href="#">September 2020</a>	<a href="#">July 2020</a> <a href="#">September 2020</a> <a href="#">November/December 2020</a>
Approval of final text		<a href="#">November/December 2020</a>