

Meeting: IESBA
Meeting Location: New York, USA
Meeting Date: September 16-19, 2019

Agenda Item 2

Non-assurance Services Cover Note and Issues

I. Objective

1. To consider and approve for exposure proposed revisions to the non-assurance services (NAS) provisions in the International Independence Standards and related conforming amendments.

A Task Force¹ meeting is planned for **Sunday, September 15, 2019**. Comments and drafting suggestions are requested in advance of this meeting, preferably by **Thursday September 12, 2019**. Please email comments to dianejules@ethicsboard.org.

II. Format of the September 2019 NAS Session

2. On Day 1 of the meeting, the Task Force Chair will:
 - Brief the Board on the changes that have been made to the key proposals in response to the June 2019 IESBA meeting discussion and the Board's feedback on a preliminary draft that was circulated to the Board via email in July 2019.
 - Present the remaining issues for Board consideration that are set out in the "Remaining Issues for Consideration" section of this paper.
 - Walk through the proposed revisions to the NAS provisions in the extant Code:²
 - For audit and review engagements (i.e., the proposed revisions to Section 600,³ **Agenda Item 2A**, and the proposed conforming amendments to Section 400,⁴ **Agenda Item 2B**).
 - For assurance engagements other than audits and review engagements⁵ (i.e., the

¹ Task Force Members comprise:

- Richard Fleck, Chair and IESBA Deputy Chair
- David Clark, IESBA Technical Advisor
- Kim Gibson, IESBA Member
- Jens Poll, IESBA Member

² The extant Code is the *International Code for Professional Accountants (including the International Independence Standards)* (i.e., the revised and restructured Code) which became effective in June 2019.

³ Part 4A – Independence for Audits and Reviews, Section 600, *Provision of Non-assurance Services to an Audit Client*

⁴ Part 4A, Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

⁵ The Task Force's proposed conforming amendments to Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements are to the March 2019 [Exposure Draft: Proposed Revisions to Part 4B to Reflect Terms and Concepts Used in ISAE 3000 \(Revised\)](#) (Part 4B ED), specifically Section 950, *Provision of Non-assurance Services to an Assurance Clients Other than Audit and Review Engagement Clients*; and Section 900, *Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audit and Review Engagements*.

proposed conforming amendments to Sections 950 and 900 in **Agenda Item 2C**).

3. Task Force meetings are scheduled during the week of the meeting to consider such further revisions as may be necessary based on the feedback from the Board. Reading time is scheduled during the week of the meeting to allow meeting participants the opportunity to consider the revised drafts that will be circulated. The vote to approve the ED is anticipated to take place on the last day of the meeting.

III. Background

4. At its June 2019 meeting, the IESBA considered a first-read draft of proposed revisions to Section 600, including the subsections. Among other matters, the IESBA deliberated:
 - The proposed provisions that would prohibit firms and network firms from providing NAS to audit clients that are public interest entities (PIEs) when those NAS might create self-review threats.
 - The proposed provisions addressing communication with those charged with governance (TCWG) about specific NAS engagements, including pre-approval of NAS by TCWG for audit clients that are PIEs.
 - The ordering and flow of the material in the subsections.
 - Proposed refinements and other clarifications to subsection 604 relating to tax.

IV. Activities since Last Board Discussion

5. Since the June 2019 IESBA meeting, the Task Force held a physical meeting in mid-July to develop a revised set of proposals. The Task Force sought input on the revised draft via email from IESBA members and Technical Advisors. The key revisions in the July 2019 draft were to:
 - Refine the proposed requirement and application material relating to the self-review threat prohibition, including revisions to the related requirements in the subsections.
 - Present new application material relating to providing advice and recommendations, in light of the introduction of the self-review threat prohibition.
 - Address the implications of moving the provisions relating to assuming management responsibility to Section 400.
 - Introduce revisions to the general provisions relating to tax in Subsection 604.
 - Develop a preliminary draft for a new Subsection 611 in response to calls for new material relating to new and emerging NAS arising from advancing technologies (e.g., hosting and cybersecurity).
 - Minimize repetition of material that is already covered in the conceptual framework and align to the new structure and drafting conventions for the Code.
6. In addition to various interactions via email, the Task Force met via teleconference in August to consider additional revisions and refinements based on the feedback received from Board members, and to agree to the agenda materials for this meeting.
7. **Agenda Items 2-A.1, 2-B.1 and 2-C.1** are provided to highlight in mark-up the revisions made to the July drafts in response to the Board's preliminary input. The most substantive revisions are to:

- Refine the wording to explain the distinction between concerns about threats to independence for audit clients that are PIEs versus concerns about threats to independence for audit clients that are not PIEs (i.e., non-PIEs).
- Change the wording in the proposed requirement in Section 600 relating to the self-review threat prohibition from “might create” to “will create.”
- Explain the implication of establishing the self-review threat prohibition to the provision of advice and recommendations while providing a NAS engagement.
- Refine the provisions for improved firm communication with TCWG.
- Withdraw the proposed new section titled “Technology-enabled Services” in Section 600.
- Revise the proposed text that extended the new self-review threat prohibition to situations involving assurance engagements other than audit and review engagements in Section 950 (i.e., matters relevant to other assurance engagements).

V. Remaining Issues for Consideration

8. **Agenda Items 2A, 2B and 2C** includes notes to explain the Task Force’s rationale for its proposed changes to the extant Code in Sections 600, 400, and 950 and 900 respectively. Certain matters that might warrant further board discussion are identified below.

A. *Distinction for PIEs and non-PIEs*

9. The proposed text reflects the Task Force’s view that concerns about a firm’s independence are heightened in the case of audits of PIEs, and that the use of the reasonable and informed third party test is especially important when deciding whether to provide a NAS to an audit client that is a PIE (see paragraph 600.10 A1).
10. Most of Task Force’s proposals apply only to audit clients that are PIEs. The new application material provides a useful explanation of the reasons for having different NAS provisions in the Code for audit clients that are PIEs and those that are non-PIEs.
11. The Explanatory Memorandum to the NAS ED will signal the Board’s plan to accelerate the timeline for its strategic commitment to review the definition of listed entity and PIE in the Code with a view to coordinating the effective dates of any changes to those definitions with the changes arising from the NAS and Fees projects. The Board’s decision to accelerate this project was made in March 2019 and was based on the advice of the IESBA Consultative Advisory Group (CAG).

Matter for IESBA Consideration

1. Do IESBA members agree with the Task Force’s proposed wording in 600.10 A1 to explain the different approaches in the Code for audit clients that are PIEs and those that are non-PIEs?

B. *Self-review Threat Prohibition (for PIEs)*

12. At its June 2019 meeting, the Board deliberated whether the proposed text appropriately conveyed the Board’s intent with respect to the general prohibition that firms should not provide NAS that might create self-review threats to audit clients that are PIEs (i.e., the self-review threat prohibition).
13. At the June 2019 meeting, there was general agreement by the Board that in the case of audit clients that are PIEs, self-review threats cannot be eliminated and safeguards are not capable of being

applied to reduce them to an acceptable level (see paragraph 600.15 A1). There remained an open question as to how best to articulate the proposed requirement. IESBA members' views varied about whether the proposed text should include the phrases "...NAS that is subject to audit...", "...NAS that might create a self-review threat...", or "...NAS that will create a self-review threat..."

14. Based on input from IESBA members on the July 2019 revised draft of the Task Force's proposals, the proposed requirement has been revised to refer to "NAS that will create a self-review threat" (see paragraph R600.15). The requirements within the subsections for specific types of NAS have also revised to ensure consistency with the general requirement.
15. New application material has been added to help firms and network firms determine whether a NAS creates a self-review threat (see paragraph 600.15 A2).

Matter for IESBA Consideration

2. Do IESBA members agree with the Task Force's revised approach and proposed wording for the self-review threat prohibition?

C. Providing Advice and Recommendations

16. At its June meeting, the Board asked the Task Force to:
 - Explain the interaction between the existing prohibition relating to assuming management responsibility for an audit client and providing advice and recommendations to assist management.
 - Clarify whether the self-review threat prohibition would apply in circumstances when firms provide advice and recommendations to audit clients that are PIEs during a NAS engagement.
17. In arriving at its proposals, the Task Force considered the view held by some IESBA members that providing advice and recommendations generally "does not create self-review threats if management accepts responsibility for implementing that advice."
18. The Task Force notes that the nature of, and facts and circumstances relating to the provision of, advice and recommendations by a firm to an audit client varies enormously, and is appropriately dealt with in different ways in the Code. For instance, the Code notes that advice and recommendations might be provided:
 - *As part of the dialogue between the firm and the management* of the audit client about the audit process (see paragraph 601.2 A2).
 - *As an extension of the audit, to assist management* in the resolution of accounting and bookkeeping matters such as addressing account reconciliation problems or analyzing or accumulating information for financial or regulatory reporting (see paragraph 601.2 A4).
 - *As part of a stand-alone NAS engagement* (e.g., tax advice in subsection 604, litigation support in subsection 607, legal advice in subsection 608, and corporate finance advisory service in subsection 610).
19. The Task Force's revised proposals:
 - Give more prominence and emphasis to the requirement that prohibits firms and network firms from assuming a management responsibility for an audit client through its new placement in Section 400. Section 400 sets out the general provisions relating to the application of the

conceptual framework to independence for audit and review engagements (see para. R400.13).

- Retain the position that providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility (see paragraph 400.13 A4 in **Agenda Item 2B**). Except for its new location, this provision is unchanged from the extant Code. The provisions also continue to require the firm to be satisfied that client management makes all judgments and decisions that are the proper responsibility of management (see para. R400.14).
- Indicate that providing advice and recommendation when performing a NAS engagement for an audit client: (see paragraph 600.16 A1)
 - (a) Might constitute assuming management responsibility unless client management takes responsibility for the implementation of the advice and recommendations as required in paragraph R400.14; and
 - (b) Might create a self-review threat. The approaches for audit clients that are PIEs and audit clients that are not PIEs differ.
 - For audit clients that are non-PIEs, if a self-review threat is created, firms are permitted to apply the conceptual framework to address it.
 - In the case of audit clients that are PIEs, if a self-review threat is created, the proposed self-review threat prohibition in paragraph R600.15 applies.

Matter for IESBA Consideration

3. Do IESBA members agree with the Task Force's proposals relating to providing advice and recommendations?

C. Improved Firm Communication with TCWG About NAS Matters

Audit Clients that are PIEs

20. The Task Force has revised its proposals relating to improved firm communication with TCWG about NAS matters for audit clients that are PIEs to deal with specific questions about implementation (see R600.18 to 600.19 A1 in **Agenda Item 2A**). For example:
- With respect to pre-approval of NAS by TCWG, the Task Force has considered the feedback from some jurisdictions where, within the corporate governance structure, TCWG may not have the authority to pre-approve NAS. The Task Force proposes to revise the text by replacing the term "...obtain approval..." with "...obtain concurrence...".
 - With respect to questions about the process for pre-approval, and how the pre-approval should be evidenced (e.g., whether using an automated process that leverages technology or via manual means), the Task Force proposes to revise the text to explain that the firm and TCWG will agree on the process by which concurrence for providing the NAS to the audit client is obtained.
 - In response to questions about how the proposal will be applied in a group audit context or where a firm provides a NAS to a related entity, the requirement in R600.18 now specifically states that it shall apply only to related entities over which the audit client has direct or indirect control.

Audit Clients that are not PIEs

21. Some of the material relating to communication with TCWG that was included in July draft of Section 600 has been deleted because it is duplicative of the material in paragraph 400.40 A1 (see **Agenda Item 2A.1**).
22. For audit clients that are non-PIEs, the proposed new application material explains that communication with TCWG might be appropriate when significant judgments are made and conclusions reached regarding how the firm addresses threats to independence created by providing NAS to audit clients (see paragraph 600.17 A1).

Matter for IESBA Consideration

4. Do IESBA members agree with the Task Force's proposals relating to firm communication with TCWG with respect to audit and review engagements (i.e., in Section 600)?

D. *New and Emerging NAS Arising from Advances in Technology*

23. The Task Force was asked to revisit and/or modernize the examples of NAS that are dealt with in the Code and update the relevant provisions. This was so that the Code provides guidance about how firms and network firms are to apply the Code when providing new and emerging services arising from advances in technology or new business practices (e.g. hosting, cyber security and outsourcing).
24. The Task Force believes that firms should apply the conceptual framework and the general NAS provisions in the Code in paragraphs 600.1 to 600.22 when deciding whether to provide a type of NAS that is not expressly dealt with in the subsections of the Code.
25. Nevertheless, the Task Force accepted a suggestion from a June 2019 IESBA meeting participant and leveraged the material in the AICPA's Interpretation Publication [Information System Services](#) to, in the July 2019 draft:
 - Revise the description of services and the existing terminology and examples in Subsection 606 (e.g., paragraph 606.2 A1).
 - Change the term "information technology systems services" to "information systems services" in most instances within the subsections.
 - Establish a new subsection titled "Technology-enabled Services" as subsection 611. The preliminary feedback from the Board was mixed. While some IESBA members welcomed having dedicated material in the Code for new and emerging NAS arising from technology in Code, others cautioned against inclusion of the new material. In addition to the many drafting refinements and editorial suggestions, Board members commented as follows:
 - The material in the proposed Technology-enabled Services subsection paraphrased and, in some cases, duplicated the provisions in the conceptual framework and subsection 606.
 - The material in the proposed Technology-enabled Services subsection is outside of the NAS project scope and would be best dealt with as part of the IESBA's Technology initiative.
 - The proposed Technology-enabled Services subsection should expressly deal with specific types of technologies (e.g., artificial intelligence).

- The proposed Technology-enabled Services subsection would be better positioned in a separate publication outside of the Code. It was noted that with the pace of change in technologies and business practices, there was a risk that any new material introduced in the Code might need to be updated by the time the provisions are finalized and come into effect.
26. Having duly considered the feedback on the July 2019 draft, the Task Force has decided to withdraw the proposed Technology-enabled Services subsection. The Task Force believes that, beyond its proposed refinements to subsection 606, any further revisions to modernize the Code in relation to technology should be developed as part of the IESBA's Technology initiative.

E. *Matters Relevant to Non-PIEs*

27. In December 2018, the IESBA generally agreed to Task Force's proposal to clarify the relevance of the concept of materiality in applying the NAS provisions. With respect to audits of PIEs, it was agreed that the concept of materiality would only be used as an example of a "factor in evaluating the level of threats that are created by providing NAS to audit clients." It was agreed that it would no longer be a "threshold" or "qualifier" for determining whether a firm can or cannot provide a NAS to an audit client.
28. Based on this position, the reference to "materiality" in the prohibitions for specific types of NAS that apply to audits of PIEs was removed (see the subsections of Section 600 in **Agenda Item 2A**).
29. Some of the NAS prohibitions in the extant Code that include a materiality qualifier apply to all audit clients and relate to:
- Tax planning and tax advisory when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation (see [R604.8 of the extant Code](#)).
 - Tax services that involve assisting in the resolution of tax disputes when the services involve acting as an advocate for the client before a public tribunal or court (see [R604.11 of the extant Code](#)).
 - Providing corporate finance services to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation (see [R610.5 of the extant Code](#)).

Task Force Considerations

30. The Task Force is proposing that the reference to materiality should be withdrawn for all audit clients (see R604.4, R604.13 and R608.9 in **Agenda Item 6A**). The implication of this proposal is that for non-PIEs, the revised provisions relating to the specific types of NAS listed in paragraph 29 of this paper would be more restrictive than the extant Code.
31. The Task Force noted that in the extant Code there are no safeguards that will be effective to reduce to an acceptable level actual or perceived threats to independence created by providing the services described in paragraph 29, and that the permissibility of such services was conditioned on the outcome of the NAS being immaterial to the financial statements. As a result of removing references to materiality, and given the nature of the NAS described in paragraph 29, the Task Force believes that the provision of such NAS to non-PIEs should be prohibited.
32. A commenter on the July draft suggested withdrawing the materiality qualifier for situations in which a firm or a network firm acts in an advisory role for an audit client in resolving a dispute or litigation (see [R608.6 of the extant Code](#)). The Task Force plans to seek the CAG and the Board's input with

respect to this suggestion.

Matters for IESBA Consideration

5. Do IESBA members agree with the Task Force's proposed response to calls for guidance in the Code for new material to deal with new and emerging NAS arising from advances in technology?
6. IESBA members are asked for views on the Task Force's proposals set out in the "Matters Relevant to Non-PIEs" section of this paper, including whether there is agreement to withdraw the materiality qualifier for following types of NAS:
 - (a) Tax planning and tax advisory when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation.
 - (b) Tax services that involve assisting in the resolution of tax disputes when the services involve acting as an advocate for the client before a tribunal or court.
 - (c) Providing corporate finance services to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation.
 - (d) Acting in an advisory role for an audit client in resolving a dispute or litigation.
7. IESBA members are asked whether they agree with the other NAS-related revisions made in relation to the provision of NAS to audit clients in:
 - (a) Section 600 in **Agenda Item 2A**.
 - (b) The conforming amendments to Section 400 in **Agenda Item 2B**.

F. *Matters Relevant to Assurance Engagements Other than Audits and Reviews*

33. The Task Force believes it is necessary to extend some of the NAS enhancements to assurance engagements other than audits and reviews in Sections 950 and 900 in order to preserve the existing alignment between Part 4A and Part 4B of the Code.

Self-review Threats

34. With respect to the proposed self-review threat prohibition, the Task Force seeks the Board's input on its proposals set out in **Agenda Item 2C**. In particular, the Task Force seeks views on the proposed text in:
 - Paragraph R950.12 in **Agenda Item 2C** which prohibits a firm from accepting a NAS if a self-review threat would arise in relation to an assurance engagement to be undertaken by the firm unless it has been addressed in accordance with the requirements of the conceptual framework.
 - Paragraph R950.13 in **Agenda Item 2C** which prohibits firms from undertaking an assurance engagement that is of public interest nature (i.e., public interest assurance engagements), if the firm was previously involved in the preparation of subject matter information of that assurance engagement.
35. In this regard, the Task Force notes that some members of the Alignment to Part 4B/ ISAE 3000 Task Force questioned the need to introduce the concept of a "public interest engagement" to the Code and the related prohibition.

Communication with TCWG in the Case of Assurance Engagements Other than Audits and Reviews

36. The Task Force believes that it is in the public interest to enhance communication with TCWG about independence matters with respect all assurance engagements. Therefore, the Task Force is proposing to include new application material in Section 900 that mirrors application material in paragraph 400.40 A1 of the extant Code (i.e. paragraphs 900.34 A1 in **Agenda Item 2C**).
37. Paragraph 900.34 A2 in **Agenda Item 2C** includes new application material to encourage firms to communicate with TCWG about significant judgments made and conclusions reached to address threats to independence created by providing NAS.
38. The Task Force is of the view that the proposed requirements and application material regarding obtaining the concurrence from TCWG before providing the NAS should not be extended to other assurance engagements.

Matters for IESBA Consideration

8. Do IESBA members agree with the Task Force's proposals in relation to assurance engagements other than audits and reviews with respect to:
 - The self-review threat provision?
 - Communication with TCWG?
9. IESBA members are asked whether they agree with the other NAS-related revisions made to the extant Code with respect to assurance engagements other than audits and reviews (i.e., Sections 950 and 900 in **Agenda Item 2C**).

VI. Matters Requiring Coordination with Other Task Forces and the IAASB

Fees

39. The Task Force believes that the NAS Explanatory Memo should include a discussion of the IESBA's planned way forward with respect to NAS fee-related issues. In doing so, it will be important to set out a persuasive rationale to support the IESBA's rejection of the recurring suggestion from some European regulators for a fee-cap in the Code.

Alignment to Part 4B/ISAE 3000 (Revised)

40. The Task Force has obtained input on its proposed revisions to Sections 950 and 900 from the Chair and some of the members of the Alignment to Part 4B/ISAE 3000 Task Force in advance of the September 2019 meeting.
41. The Task Force's proposals are to the Part 4B ED. As part of a separate session during the September 2019 meeting, the Board will consider the Part 4B/ISAE 3000 Task Force's analysis and summary of responses to the feedback to the Part 4B ED and related revisions to the proposed text.

IAASB

42. The IESBA suggested that the Task Force should liaise with representatives of the IAASB to explore whether any actions might need to be taken by the IAASB to preserve the existing alignment between the Code and ISA 260 (Revised)⁶ as a result of the Task Force's proposals to enhance transparency

⁶ International Standard on Auditing (ISA), 260 (Revised), *Communication with Those Charged with Governance*

through improved firm communications with TCWG about NAS-related matters.

43. The Task Force's proposals include proposed text which requires firms to:
- Communicate with TCWG of audit clients that are PIEs about certain NAS-related information, including the nature of the NAS, and the actions that are taken to address the threats to independence that might be created.
 - Obtain the concurrence of TCWG for the provision of a NAS to an audit client. This aspect of the proposal is intended to respond to calls for the Code to require TCWG to pre-approve NAS. Proposed new application material:
 - Explains that the firm and TCWG of the PIE might agree on a process for the firm to obtain the concurrence of TCWG.
 - Illustrates that the concurrence of TCWG for each NAS might be obtained either on an individual engagement basis, under a general policy, or via other means, provided that the process to be used is approved by TCWG.
44. The communication requirement in the IAASB's ISA 260 (Revised) applies to listed entities only. It requires auditors to communicate with TCWG about independence matters that may reasonably be thought to bear on independence.⁷
45. Coordination of overlapping issues related to enhanced firm communications with TCWG about NAS is being progressed as part of an ongoing discussion with IAASB representatives that is being facilitated by the Fees Working Group. As further discussed in the Fees agenda materials, a Joint Working Group (JWG) of the two Boards has been established to coordinate efforts on enhancing transparency about independence matters (specifically fees) and improving firm communications with TCWG.
46. The IAASB plans to consider the issues, views and suggestions from the JWG at its September 2019 meeting. The agenda material will include a discussion about the relevant proposals being explored by both the Fees and NAS Task Forces.

Matter for IESBA Consideration

10. IESBA members are asked to note the matters in Section VI of this paper and the other NAS agenda materials, and provide any other comments or suggestions in finalizing the ED.

Materials Presented

For Discussion

- Agenda Item 2A Proposed Revisions to Section 600 (Markup from Extant with Notes)
- Agenda Item 2B Proposed Conf. Amendments to Section 400 (Markup from Extant with Notes)
- Agenda Item 2C Proposed Conf. Amendments to Sections 950 & 900 (Markup from ED with Notes)

⁷ ISA 260 (Revised), paragraph 17

For Reference

- Agenda Item 2A.1 Proposed Revisions to Section 600 (Markup from July 2019 Draft)
- Agenda Item 2A.2 Proposed Revisions to Section 600 (Clean Version)
- Agenda Item 2B.1 Proposed Conf. Amendments to Section 400 (Markup from July 2019)
- Agenda Item 2B.2 Proposed Conf. Amendments to Section 400 (Clean Version)
- Agenda Item 2C.1 Proposed Conf. Amendments to Sections 950 and 900 (Markup from July 2019)
- Agenda Item 2C.2 Proposed Conf. Amendments to Sections 950 and 900 (Clean Version)

Project History

Project: NAS

Summary

	CAG Meeting	IESBA Meeting
Information gathering/ Discussion	<u>March 2018</u>	<u>March 2018</u>
Project commencement, including: <ul style="list-style-type: none">• Consideration of feedback from roundtables• Approval of project proposal	<u>September 2018</u>	<u>June 2018</u> <u>September 2018</u>
Development of proposed international pronouncement (up to exposure)	<u>March 2019</u> <u>September 2019</u>	<u>December 2018</u> <u>March 2019</u> <u>June 2019</u> <u>September 2019</u>