Non-Assurance Services – Revisions to Proposed Text in NAS ED
(Mark-up from October 2020 draft)

I. Chapter 1 – Proposed Revisions to Section 600

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Section 600
PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

Introduction

600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.

600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to audit clients and indicate the types
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of threats that might be created as a result. When providing a non-assurance service for
which there are no specific requirements and application material for a type of non-
assurance service are not included in the Code, the conceptual framework and the general
provisions in this section apply.

600.4 In addition to the general provisions that apply in all circumstances, some subsections
include requirements that expressly prohibit a firm or a network firm from providing certain
services to an audit client because the threats created cannot be eliminated and
safeguards are not capable of being applied to reduce the threats to an acceptable level.

600.5 New business practices, the evolution of financial markets and changes in technology are
some developments that make it impossible to anticipate develop an all-inclusive list of
non-assurance services that firms and network firms might provide to an audit
client. In such circumstances, the conceptual framework and the general provisions in this
section apply.

Requirements and Application Material

General

Non-Assurance Services Provisions in Laws or Regulations

600.6 A1 Paragraphs R100.63 to 100.73 A12 set out requirements and application material relating
to compliance with the Code. If there are laws and regulations in a jurisdiction relating to
the provision of non-assurance services to audit clients that differ from or go beyond those
set out in this section, firms providing non-assurance services to which such provisions
apply need to be aware of those differences and comply with the more stringent provisions.

Accepting an Engagement to Provide a Non-Assurance Service

600.7 A1 When a firm or network firm provides a non-assurance service to an audit client, there is a
risk that the firm or a network firm will assume a management responsibility unless the
firm or network firm is satisfied that the requirements in paragraph R400.14 have been
complied with.

Identifying and Evaluating Threats

All Audit Clients

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

600.9 A2 Factors that are relevant in identifying and evaluating the different threats that might be
created by providing a non-assurance service to an audit client, and evaluating the level of
such threats include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved
  and their location.
- The legal and regulatory environment in which the service is provided.
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- Whether the client is a public interest entity.
- The level of expertise of the client’s management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgment. (Ref: Para. R400.13 to R400.14).
- Whether the outcome of the service will affect the accounting records or matters reflected in the financial statements on which the firm will express an opinion, and, if so:
  o The extent to which the outcome of the service will have a material effect on the financial statements.
  o The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client’s:
  o Accounting records or financial statements on which the firm will express an opinion.
  o Internal controls over financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The fees relating to the provision of the non-assurance service.

600.9 A3 Subsections 601 to 610 include examples of additional factors that are relevant in identifying and evaluating the level of threats to independence created by providing the non-assurance services, and evaluating the level of such threats set out in those subsections.

Providing advice and recommendations

600.10 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph R600.13. Where the audit client is not a public interest entity and a self-review threat is identified, the firm is required to address the threat by application of the conceptual framework. If the audit client is a public interest entity, paragraph R600.15 applies.

600.10 A2 Subject to paragraph R400.13, A firm or a network firm may provide advice and recommendations to an audit client in relation arising from or matters arising obtained in the course of that client’s audit—provided that:
(a) The audit client accepts responsibility for making the decisions involved in the preparation of accounting records or financial statements; and
(b) The firm does not assume a management responsibility.

Examples of such advice and recommendations are included in paragraph 601.2 A2.
Multiple non-assurance services provided to the same audit client

R600.11 When a firm or a network firm provides multiple non-assurance services to an audit client, the firm shall consider, in addition to the threats created by each service individually, whether the combined effect of such services creates or impacts threats to independence.

600.11 A1 In addition to considering the factors set out in paragraph 600.9 A2, factors that are relevant in a firm’s evaluation in evaluating the level of threats to independence created where multiple non-assurance services are provided to an audit client, a firm or network firm might consider include whether:

- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.
- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the audit client.

Self-review threats

600.12 A1 When a firm or network firm provides a non-assurance service to an audit client, there might be a risk of the firm auditing its own or the network firm’s work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgment made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the audit team will rely when forming a judgment as part of an audit.

R600.13 Before providing a non-assurance service to an audit client, a firm or network firm shall determine whether the provision of that non-assurance service might create a self-review threat by evaluating whether there is a risk that:

(a) The results of the service will form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion; and

(b) In the course of the audit of those financial statements on which the firm will express an opinion, the results of the service will be subject to audit procedures; and

(c)(b) When performing such audit procedures, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm in the course of providing the non-assurance service.

Audit of clients that are public interest entities

600.14 A1 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm’s independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an audit client that is a public interest entity.

600.14 A2 Where the provision of a non-assurance service to an audit client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

R600.15 A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity if the provision of that non-assurance service might create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion. (Ref: Para. 600.12 A1 and R600.13)

600.15 A12 Where the Code expressly prohibits the provision of a non-assurance service to an audit client, a firm or a network firm is not permitted to provide that service, regardless of the
materiality of the outcome or results of the non-assurance service on the financial statements on which the firm will express an opinion.

**Materiality in Relation to Financial Statements**

600.16 A1 Materiality is a factor that is relevant when identifying and evaluating threats created by providing a non-assurance service to an audit client. Subsections 601 to 610 refer to materiality in relation to an audit client’s financial statements. The concept of materiality in relation to an audit is addressed in ISA 320, Materiality in Planning and Performing an Audit, and in relation to a review in ISRE 2400 (Revised), Engagements to Review Historical Financial Statements. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

600.16 A2 Where the Code expressly prohibits the provision of a non-assurance service to an audit client, a firm or a network firm is not permitted to provide that service, regardless of the materiality of the outcome or results of the non-assurance service on the financial statements on which the firm will express an opinion.

**Addressing Threats**

**All Audit Clients**

600.17 A1 Paragraphs R120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

600.17 A2 Threats to independence created by providing a non-assurance service or multiple services to an audit client vary depending on the facts and circumstances of the audit engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

600.17 A3 Examples of actions that might be safeguards to address such threats include:

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

600.17 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to an audit client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm or network firm to:

- Adjust the scope of the proposed service to eliminate the circumstances that are creating the threats;
- Decline or end the service that creates the threats that cannot be eliminated or reduced to an acceptable level; or
- End the audit engagement.

**Audit Clients that are Public Interest Entities**

600.18 A1 A firm or a network firm shall not provide a non-assurance service in an audit client that is a public interest entity which, for this purpose, shall include only related entities over which the audit client has direct or indirect control, unless the firm has concluded that the proposed non-assurance service is not prohibited, or if such non-assurance service gives
rise to a threat to independence, that such threat has been eliminated or that safeguards that are in place or which the firm proposes to apply will reduce such threat to an acceptable level.

R600.19 Where an audit client that is a public interest entity has a related entity over which it does not have direct or indirect control, a firm shall consider whether any non-assurance service provided by the firm or by a network firm to that related entity creates a threat to the firm's independence as auditor of the public interest entity.

Communication with Those Charged With Governance Regarding Non-Assurance Services

Audit Clients that are not Public Interest Entities

600.2018 A1 In the case of audit clients that are not public interest entities, paragraphs 400.40 A1 and 400.40 A2 are relevant to a firm's communication with those charged with governance in relation to the provision of non-assurance services.

Audit Clients that are Public Interest Entities

Where a non-assurance service is to be provided to an audit client that is a public interest entity or to a related entity over which the audit client has direct or indirect control

R600.1921 Before a firm or a network firm accepts an engagement or reacceptance of changes to an existing engagement to provide a non-assurance service to an audit client that is a public interest entity which, for this purpose, shall include only related entities over which the audit client has direct or indirect control, the firm shall:

(a) Confirm to those charged with governance of the public interest entity that the firm has determined that the provision of the non-assurance service:

(i) Is not prohibited; and

(ii) Will not create a threat to the firm's independence from the audit client or that any threat will be eliminated or reduced by safeguards to an acceptable level; and

(b) Provide those charged with governance of the public interest entity with sufficient information to enable them to make an informed decision about the impact of the provision of such a non-assurance service on the firm's independence.

600.1921 A1 Examples of information that might be provided to those charged with governance of the public interest entity include:

- The nature and scope of the service to be provided.
- The basis and amount of the fee proposed.
- Any threats to independence identified by the firm from the provision of such a service.
- Whether, when a firm or network firm provides multiple non-assurance services to an audit client, the combined effect of providing multiple such non-assurance services creates threats to independence or changes the level of threats that were previously identified and evaluated.
- Whether identified threats to independence are at an acceptable level.
- Actions that the firm or network firm intends to take to address any threats that are not at an acceptable level.

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- How such actions will eliminate or reduce any threats to independence to an acceptable level.

R600.2022 A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity which, for this purpose, shall include only related entities over which the audit client has direct or indirect control, unless those charged with governance of the public interest entity concur with:

(a) The provision of that service; and

(b) The firm's assessment that the provision of the non-assurance service will not create a threat to the firm's independence from the audit client, or that the threat will be any threat to independence has been eliminated or that safeguards that the firm proposes to apply will reduce such threat to an acceptable level.

600.2022 A1 The process by which the firm obtains the concurrence of those charged with governance of the public interest entity prior to for the provision of a non-assurance service to the audit client might be, for example, on an individual engagement basis, under a general policy, or via other means provided that the process to be used is approved by those charged with governance.

600.2022 A2 Where an audit client includes one or more public interest entities, it might be appropriate for the firm and those charged with governance of the public interest entities to agree the process by which and from whom the firm or the network firm obtains for obtaining concurrence before the provision of non-assurance services can be provided from those charged with governance of the public interest entities involved.

Where a non-assurance service is to be provided to an entity that has direct control over an audit client that is a public interest entity.

R600.21 Before a firm or network firm accepts an engagement (or changes to an existing engagement) to provide a non-assurance service to an entity that has direct control ("a parent entity") over an audit client that is a public interest entity:

(a) The firm or network firm shall request permission from the parent entity to disclose to those charged with governance of the public interest entity:

(i) That the non-assurance service is to be provided to the parent entity of the public interest entity; and

(ii) Information to enable those charged with governance of the public interest entity to consider whether the provision of the non-assurance service to the parent entity will create a threat to the firm's independence from the public interest entity; and

(b) If permission is given by the parent entity, the firm shall:

(i) Confirm to those charged with governance of the public interest entity that the firm has determined that the provision of the non-assurance service to the parent entity will not create a threat to the firm's independence from the public interest entity or that any threat will be eliminated or reduced by safeguards to an acceptable level; and

(ii) Provide those charged with governance of the public interest entity with information to enable them to make an informed assessment of such determination by the firm; or

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(c) If permission is not given by the parent entity, the firm shall:

(i) Confirm to those charged with governance of the public interest entity that the firm has determined that the provision of the non-assurance service to the parent entity will not create a threat to the firm’s independence from the public interest entity or that any threat will be eliminated or reduced by safeguards to an acceptable level; and

(ii) Provide those charged with governance of the public interest entity with such information as it is able to give without breaching its obligations of confidentiality to the parent entity that is relevant to their assessment of such determination by the firm.

600.21 A1 If the parent entity refuses permission to disclose information to those charged with governance of the public interest entity, information that the firm might be able to provide without breaching its obligations of confidentiality to the parent entity include:

- Any explanation for the refusal of permission by the parent entity (including, for example, that disclosure would be prohibited by law or regulation or would involve disclosure of internally sensitive information);
- That the proposed non-assurance service will not:
  - Give rise to a conflict of interest with the public interest entity;
  - Have any connection with or impact on the financial affairs of the public interest entity;
  - Be a matter that would require consideration in the course of the audit of the public interest entity;
- Confirmation that the firm applied the reasonable and informed third party test when evaluating any threat to the firm’s independence from the public interest entity.

R600.22 If those charged with governance of an audit client that is a public interest entity do not concur with the firm’s determination that the provision of the non-assurance service to the parent entity will not create a threat to the firm’s independence from the client or that any such threat can be eliminated or reduced to an acceptable level, the firm or network firm shall decline the non-assurance service or the firm shall end the audit engagement.

Where a non-assurance service is to be provided to a related entity of an audit client that is a public interest entity over which the audit client does not have direct or indirect control (other than a parent entity)

600.23 A1 Paragraph R400.20 applies where a firm or network firm provides a non-assurance service to a related entity that is not controlled, directly or indirectly, by an audit client that is a public interest entity, other than the parent entity of the audit client.
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Audit Client that Later Becomes a Public Interest Entity

R600.243 A non-assurance service provided, either currently or previously, by a firm or a network firm to an audit client compromises the firm’s independence when the client becomes a public interest entity unless:

(a) The previous non-assurance service complies with the provisions of this section that relate to audit clients that are not public interest entities;

(b) Non-assurance services currently in progress that are not permitted under this section for audit clients that are public interest entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a public interest entity; and

(c) The firm and discusses with those charged with governance actions that might be taken to address any agree and implement further actions to address any threats to independence that are not at an acceptable level, obtains their concurrence to the approach it proposes to take, and implements such actions.

600.242 A1 Examples of actions that the firm might suggest to the audit client take include recommending that the audit client engage another firm to:

- Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary.
- Recommending that the audit client engage another firm to evaluate the results of the non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Considerations for Certain Related Entities

R600.254 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit clients. As an exception to those requirements and the requirement in paragraph R400.13, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:

(a) An entity that has direct or indirect control over the client;

(b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or

(c) An entity which is under common control with the client, provided that all of the following conditions are met:

(i) The firm or a network firm does not express an opinion on the financial statements of the related entity;

(ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion;

(iii) The services do not create a self-review threat; and

(iv) The firm addresses other threats created by providing such services that are not at an acceptable level.
Documentation

600.265 A1 Documentation of the firm’s judgments in forming conclusions regarding compliance with this section in accordance with paragraphs R400.60 and 400.60 A1 might include:

- Key elements of the firm’s understanding of the nature of the non-assurance service to be provided and whether and how the service will impact the financial statements on which the firm will express an opinion.
- The nature of any threat to independence that is created by providing the service to the audit client, including whether the results of the service will be subject to audit procedures.
- The extent of management’s involvement in the provision and oversight of the proposed non-assurance service.
- Any safeguards that are applied, or other actions taken to address a threat to independence.
- The firm’s rationale for determining that the service is not prohibited and that any identified threat to independence is at an acceptable level.
- In relation to the provision of a proposed non-assurance service to an audit client that is a public interest entity, the steps taken to provide information to and obtain concurrence from those charged with governance of that public interest entity.

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.265 A1 are relevant to applying the conceptual framework when providing accounting and bookkeeping services to an audit client.

Requirements and Application Material

General

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

- Determining accounting policies and the accounting treatment in accordance with those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
  - Purchase orders.
  - Payroll time records.
  - Customer orders.
- Originating or changing journal entries.
- Determining or approving the account classifications of transactions.
The audit process necessitates dialogue between the firm and the management of the audit client, which might involve:

- Applying accounting and financial reporting 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 in the financial statements and related disclosures.
- Proposing adjusting journal entries arising from audit findings.
- Responding to questions relating to the application of accounting and financial reporting standards, their application and financial reporting.
- Discussing findings on internal controls over financial reporting and processes and recommending improvements.
- Discussing how to resolve account reconciliation problems.
-Analyzing information for regulatory reporting purposes.
- Discussing how to comply with group accounting policies.
- Discussing how to convert existing financial statements from one financial reporting framework to another.

These activities do not usually create threats as long as the client accepts responsibility for making the decisions involved in the preparation of accounting records or financial statements and the firm does not assume a management responsibility.

**Description of Service**

**601.2 A3**

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

- Preparing accounting records or financial statements.
- Recording transactions.
- Providing payroll services.
- Resolving account reconciliation problems.
- Converting existing financial statements from one financial reporting framework to another.

**Potential Threats Arising from the Provision of Accounting and Bookkeeping Services**

**All Audit Clients**

**601.3 A1**

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

**Audit Clients that are Not Public Interest Entities**

**R601.4**

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

(a) The services are of a routine or mechanical nature; and

(b) The firm addresses any threats that are not at an acceptable level.

Examples of services that might be regarded as routine or mechanical include:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

The firm or a network firm may provide such services to audit clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.14 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.4 (b).

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

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

Audit Clients that are Public Interest Entities

A firm or a network firm shall not provide accounting and bookkeeping services to an audit client that is a public interest entity (Ref Para. R600.13 and R600.15) if the provision of such accounting and bookkeeping services might create a self-review threat in relation to the audit of the financial statement on which the firm will express an opinion.

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

[Addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.25 A1 are relevant to applying the conceptual framework when providing administrative services.]
Application Material

Description of Service

602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.

602.2 A2 Examples of administrative services include:

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

Potential Threats Arising from the Provision of Administrative Services

All Audit Clients

602.3 A1 Providing administrative services to an audit client does not usually create a threat when such services are clerical in nature and require little to no technical expertise and/or professional judgment.

SUBSECTION 603 – VALUATION SERVICES

Introduction

603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.265 A1 are relevant to applying the conceptual framework when providing valuation services to an audit client.

Requirements and Application Material

Description of Service

603.2 A1 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 the whole or part of an entity.

603.2 A2 If a firm or a network firm is requested to perform a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes and the results of the valuation have no effect on the accounting records or the financial statements other than through accounting entries related to tax, the requirement and application material set out in paragraphs 604.17 A1 to 604.19 A1, relating to such services, apply.

Potential Threats Arising from the Provision of Valuation Services

All Audit Clients

603.3 A1 Providing a valuation service to an audit client might create a self-review threat when the results of the service will affect the accounting records or the financial statements on which the firm will express an opinion. Such a service might also create an advocacy threat.

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

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- The use and purpose of the valuation report.
- Whether the valuation report will be made public.
- The extent to which the valuation methodology is supported by law or regulation, other precedent or established practice.
- 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 of the disclosures related to the valuation in the financial statements.
- The volatility of the amounts involved as a result of dependence on future events.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R603.5 applies.

Audit Clients that are Not Public Interest Entities

603.3 A3 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing a valuation service to an audit client that is not a public interest entity include:

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

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603.3 A4

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

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

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R603.4

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

Audit Clients that are Public Interest Entities

Self-review Threats

R603.5 A firm or a network firm shall not provide a valuation service to an audit client that is a public interest entity if the provision of such valuation service might create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion. (Ref: Para. R600.13 and R600.15.)
Advocacy Threats

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

SUBSECTION 604 – TAX SERVICES

Introduction

604.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to ED600.285 A1 are relevant to applying the conceptual framework when providing a tax service to an audit client.

Requirements and Application Material

Description of Service

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

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

604.2 A2 It is possible to consider tax services under broad headings, such as tax planning or compliance. However, such services are often interrelated in practice and might be combined with other types of non-assurance services provided by the firm such as corporate finance services. It is, therefore, impracticable to categorize generically the threats to which specific tax services give rise.

Potential Threats Arising from the Provision of Tax Services

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

604.3 A2 Factors that are relevant in identifying self-review or advocacy threats include:

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

R604.4  A firm or a network firm shall not provide a tax service or recommend a transaction to an audit client if the service or transaction relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm has confidence that the proposed treatment has a basis in applicable tax law and regulation that is likely to prevail.

604.4 A1  Unless the tax treatment has a basis in applicable tax law and regulation that the firm is confident is likely to prevail, providing the non-assurance service described in paragraph R604.4 creates self-interest, self-review and advocacy threats that cannot be eliminated and safeguards are not capable of being applied to reduce those such threats to an acceptable level.

A. Tax Return Preparation

Description of Service

604.5 A1  Tax return preparation services include:

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

Potential Threats Arising from the Provision of Tax Return Preparation Services

All Audit Clients

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

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

B. Tax Calculations for the Purpose of Preparing Accounting Entries

Description of Service

604.7 A1  Tax calculation services involve the preparation of calculations of current and deferred tax liabilities or assets for the purpose of preparing accounting entries supporting tax assets or liabilities in the financial statements of the audit client.
Potential Threats Arising from the Provision of Tax Calculation Services

All Audit Clients

604.8 A1 Preparing tax calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that support such balances creates a self-review threat.

Audit Clients that are Not Public Interest Entities

604.9 A1 In addition to the factors in paragraph 604.3 A2, A3 that is relevant in evaluating the level of self-review threat created when preparing such calculations for an audit client in addition to those in paragraph 604.3 A2, is whether the calculation might have a material effect on the financial statements on which the firm will express an opinion.

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

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

Audit Clients that are Public Interest Entities

R604.10 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity, (Ref: Para. R600.13 and R600.15), if such calculations might create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

C. Tax Advisory and Tax Planning Services

Description of Service

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

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

All Audit clients

604.12 A1 Providing tax advisory and tax planning services to an audit client might create a self-review threat when the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

604.12 A2 Providing tax advisory and tax planning services will not create a self-review threat if such services:

(a) Are supported by a tax authority or other precedent;
(b) Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or
(c) Have a basis in tax law that the firm is confident is likely to prevail.

604.12 A3 In addition to those identified in paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats, and evaluating the level of any such threats created by
providing tax advisory and tax planning services to audit clients, and evaluating the level of such threats include:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements.
- Whether the tax treatment is supported by a ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.
- The extent to which the outcome of the tax advice might have a material effect on the financial statements.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R604.15 applies.

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

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

(a) The effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements; and

(b) The audit team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit Clients that are Not Public Interest Entities

604.14 A1 Examples of actions that might be safeguards to address self-review or advocacy threats arising from the provision of tax advisory and tax planning services to an audit client that is not a public interest entity include:

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

Audit Clients that are Public Interest Entities

Self-review Threats

R604.15 A firm or a network firm shall not provide tax advisory and tax planning services to an audit client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.13 and R600.15) in relation to the audit of the financial statements on which the firm will express an opinion.

Advocacy Threats

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

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

Description of Service

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

- Merger and acquisition transactions.
- Group restructurings and corporate reorganizations.
- Transfer pricing studies.
- Stock-based compensation arrangements.

Potential Threats Arising from the Provision of Tax Services involving Valuations

All Audit Clients

604.17 A1 Providing a valuation for tax purposes to an audit client might create a self-review threat when the results of the service will affect the accounting records or the financial statements on which the firm will express an opinion. Such a service might also create an advocacy threat.

604.17 A2 When a firm or a network firm performs a valuation for tax purposes to assist an audit client with its tax reporting obligations or for tax planning purposes, the result of the valuation might:

(a) Have no effect on the accounting records or the financial statements other than through accounting entries related to tax. In such situations, the requirements and application material set out in this subsection apply.

(b) Affect the accounting records or the financial statements in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets. In such situations, the requirements and application material set out in subsection 603 relating to valuation services apply.

Audit Clients that are Not Public Interest Entities

604.18 A1 A firm or a network firm might perform a valuation for tax purposes for an audit client that is not a public interest entity where the result of the valuation only affects the accounting records or the financial statements through accounting entries related to tax. This would not usually create threats if the effect on the financial statements is immaterial or the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.

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

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
- The degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.
Examples of actions that might be safeguards to address self-review or advocacy threats for an audit client that is not a public interest entity include:

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

**Audit Clients that are Public Interest Entities**

**Self-review Threats**

**R604.19** A firm or a network firm shall not perform a valuation for tax purposes for an audit client that is a public interest entity if the provision of that service might create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion. Such a self-review threat will be created unless: (Ref: Para. R600.13 and R600.15)

(a) The underlying assumptions are either established by law or regulation, or are widely accepted; or

(b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.

**Advocacy Threats**

Examples of actions that might be safeguards to address an advocacy threat created by providing a valuation for tax purposes for an audit client that is a public interest entity include:

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

**E. Assistance in the Resolution of Tax Disputes**

**Description of Service**

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

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

**All Audit Clients**

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

In addition to those identified in paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats and evaluating the level of any such threats created by
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assisting an audit client in the resolution of tax disputes, and evaluating the level of such threats 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 firm or network firm provided the advice that is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R604.24 applies.

Audit Clients that are Not Public Interest Entities
604.23 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by assisting for an audit client that is not a public interest entity in the resolution of tax disputes include:

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

Audit Clients that are Public Interest Entities
Self-review Threats
604.24 A firm or a network firm shall not provide assistance in the resolution of tax disputes to an audit client that is a public interest entity if the provision of that assistance might create a self-review threat. (Ref: Para. R600.13 and R600.15), in relation to the audit of the financial statements on which the firm will express an opinion.

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

Resolution of Tax Matters Including Acting as an Advocate Before a Tribunal or Court
Audit Clients that are Not Public Interest Entities
604.25 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit client that is not a public interest entity if:

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

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

604.27 A1 Paragraphs R604.25 and R604.26 do not preclude a firm or a network firm from having a continuing advisory role in relation to the matter that is being heard before a tribunal or court, for example:

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

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

SUBSECTION 605 – INTERNAL AUDIT SERVICES

Introduction

605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.256 A1 are relevant to applying the conceptual framework when providing an internal audit service to an audit client.

Requirements and Application Material

Description of Service

605.2 A1 Internal audit services comprise a broad range of activities and might involve assisting the audit client in the performance of one or more aspects of its internal auditing activities. Internal audit activities might include:

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

605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of those charged with governance as well as the needs and expectations of management. As they might involve matters that are operational in nature, they do not necessarily relate to matters that will be subject to consideration in relation to the audit of the financial statements.
Risk of Assuming Management Responsibility When Providing an Internal Audit Service

Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to an audit client, the firm shall be satisfied that it does not assume a management responsibility and:

(a) The client designates an appropriate and competent resource, who reports to those charged with governance to:
   (i) Be responsible at all times for internal audit activities; and
   (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;

(b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;

(c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;

(d) The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and

(e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

Performing part of the client’s internal audit activities increases the possibility that individuals within the firm or the network firm providing internal audit services will assume a management responsibility.

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

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity’s internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.
Potential Threats Arising from the Provision of Internal Audit Services

All Audit Clients

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

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

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

605.4 A3 Factors that are relevant in identifying and evaluating the level of a self-review threat created by providing internal audit services to an audit client, and evaluating the level of such a threat include:

- The materiality of the related financial statements amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.
- The degree of reliance that the audit team will place on the work of the internal audit service.

Audit Clients that are Not Public Interest Entities

605.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an non-assurance internal audit service to an audit client that is not a public interest entity is using professionals who are not audit team members to perform the service.

Audit Clients that are Public Interest Entities

R605.6 A firm or a network firm shall not provide internal audit services to an audit client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.13 and R600.15) in relation to the audit of the financial statements on which the firm will express an opinion.

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

- The internal controls over financial reporting.
- Financial accounting systems that generate information for the client’s accounting records or financial statements on which the firm will express an opinion.
- Amounts or disclosures that relate to the financial statements on which the firm will express an opinion.
SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.2 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to an audit client.

Requirements and Application Material

Description of Service

606.2 A1 Services related to 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 might also involve matters that are unrelated to the audit client's accounting records or the internal control over financial reporting or financial statements.

Risk of Assuming Management Responsibility When Providing an IT Systems Service

R606.3 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an audit client, the firm or network firm shall be satisfied that it does not assume a management responsibility and:

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

606.3 A1 Providing the following IT systems services to an audit client does not usually create a threat as long as individuals within 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 part of the accounting records or financial statements; and
(c) Implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client’s needs is not significant.

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Potential Threats Arising from the Provision of IT Systems Services

All Audit Clients

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

606.4 A2 Factors that are relevant in identifying and evaluating the level of a self-review threat created by providing an IT systems service to an audit client, and evaluating the level of such a threat include:

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

Audit Clients that are Not Public Interest Entities

606.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an non-assurance IT systems service to an audit client that is not a public interest entity is using professionals who are not audit team members to perform the service.

Audit Clients that are Public Interest Entities

R606.6 A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.13 and R600.15) in relation to the audit of the financial statements on which the firm will express an opinion.

606.6 A1 Examples of services that are prohibited because they give rise to a self-review threat include those involving designing or implementing IT systems that:

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

SUBSECTION 607 – LITIGATION SUPPORT SERVICES

Introduction

607.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.28 A1 are relevant to applying the conceptual framework when providing a litigation support service to an audit client.

Requirements and Application Material

Description of Service

607.2 A1 Litigation support services might include activities such as:

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

Potential Threats Arising from the Provision of Litigation Support Services

All Audit Clients

607.3 A1 Providing [litigation] support services to an audit client might create a self-review threat when the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

607.4 A1 Factors that are relevant in identifying self-review or advocacy threats, and evaluating the level of any such threats, created by providing litigation support services to an audit client, and evaluating the level of such threats include:

- The legal and regulatory environment in which the service is provided.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service will involve estimating, or might affect, the estimation of damages and-or other amounts that might have a material effect on the financial statements on which the firm will express an opinion.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R607.6 applies.

607.4 A2 If a firm [a network firm] provides a litigation support service to an audit client and the service involves estimating, or might affect, the estimation of damages or other amounts that might have a material effect on the financial statements on which the firm will express an opinion, the requirements and application material set out in Subsection 603 related to valuation services apply.

Audit Clients that are Not Public Interest Entities

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

Audit Clients that are Public Interest Entities

Self-review Threats

R607.6 A firm or a network firm shall not provide litigation support services to an audit client that is a public interest entity if the provision of such services might create a self-review threat, (Ref: Para. R600.13 and R600.15), in relation to the audit of the financial statements on which the firm will express an opinion.

607.6 A1 An example of a service that is prohibited because it gives rise to a self-review threat is providing advice or assistance in connection with a legal proceeding where the outcome of the service such assistance affects the quantification of any provision or other amount in the financial statements on which the firm will express an opinion.
Advocacy Threats

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

Acting as a Witness

All Audit Clients

607.7 A1 A professional within the firm or the network firm might give evidence to a tribunal or court as a witness of fact or as an expert witness.

(a) A witness of fact is an individual who gives evidence to a tribunal or court based on his or her direct knowledge of facts or events in dispute.

(b) An expert witness is an individual who gives evidence, including opinions on matters relevant to the dispute, to a tribunal or court based on that individual’s expertise.

607.7 A2 A threat to independence is not created when an individual, in relation to a dispute that involves an audit client, acts as a witness of fact and in the course of doing so provides an opinion within the individual’s area of expertise in response to a question asked in the course of giving factual evidence.

607.7 A3 An advocacy threat is created when a firm or a network firm or an individual within a firm or a network firm, is engaged to act, as an expert witness on behalf of an audit client to give evidence before a tribunal or court on behalf of an audit client. No such advocacy threat is created if a firm or a network firm, or an individual within the firm, is:

• (a) Appointed by a tribunal or court to act as an expert witness in a dispute involving a client; or
• (b) Engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided that:
  (i) The firm’s audit clients constitute less than 20% of the members of the class or group (in number and in value);
  (ii) No audit client is designated to lead the class or group; and
  (iii) No audit client is authorized by the class or group to determine the nature and scope of the services to be provided by the firm or the terms on which such services are to be provided.

Audit Clients that are Not Public Interest Entities

607.8 A1 An example of an action that might be a safeguard to address an advocacy threat for an audit client that is not a public interest entity is using a professional to perform the service who is not, and has not been, an audit team member.

Audit Clients that are Public Interest Entities

R607.9 A firm or a network firm, or an individual within a firm or a network firm, shall not act for an audit client that is a public interest entity as an expert witness in a dispute unless the circumstances set out in paragraph 607.7 A3 apply.
SUBSECTION 608 – LEGAL SERVICES

Introduction
608.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 660.25 A1 are relevant to applying the conceptual framework when providing a legal service to an audit client.

Requirements and Application Material

Description of Service
608.2 A1 Legal services are defined as any services for which the individual providing the services must either:
   (a) Have the required legal training to practice law; or
   (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

608.2 A2 This subsection deals specifically with:
   • Providing legal advice.
   • Acting as general counsel.
   • Acting in an advocacy role.

Potential Threats Arising from Providing Legal Services

All Audit Clients
608.3 A1 Providing legal services to an audit client might create a self-review threat when the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

A. Providing Legal Advice

Description of Service
608.4 A1 Depending on the jurisdiction, providing legal advice might include a wide and diversified range of service areas including both corporate and commercial services to audit clients, such as:
   • Contract support.
   • Supporting an audit client in executing a transaction.
   • Mergers and acquisitions.
   • Supporting and assisting an audit client’s internal legal department.
   • Legal due diligence and restructuring.

Potential Threats Arising from Providing Legal Advice

All Audit Clients
608.5 A1 Factors that are relevant in identifying evaluating the level of self-review or advocacy threats, and evaluating the level of any threats created by providing legal advice to an audit client include:
   • The materiality of the specific matter in relation to the client’s financial statements.
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- The complexity of the legal matter and the degree of judgment necessary to provide the service.

608.5 A2 Examples of legal advice that might create such a self-review threat include:

- Estimating a potential loss arising from a lawsuit for the purpose of recording a provision in the client’s financial statements.
- Interpreting provisions in contracts that might give rise to liabilities reflected in the client’s financial statements.

608.5 A3 Where a firm or network firm of negotiators on behalf of an audit client might create an advocacy threat might be created, or the firm or network firm might assume a management responsibility.

[Audit Clients that are Not Public Interest Entities]

608.5 A4 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing legal advice to an audit client that is not a public interest entity include:

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

Audit Clients that are Public Interest Entities

Self-review Threats

R608.6 A firm or a network shall not provide legal advice to an audit client that is a public interest entity if the provision of such a service might create a self-review threat. (Ref: Para. R608.13 and R608.15), in relation to the audit of the financial statements on which the firm shall express an opinion.

Advocacy Threats

608.6 A1 The considerations provisions in paragraphs 608.5 A1 and 608.5 A3 to 608.5 A4 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advice to an audit client that is a public interest entity.

B. Acting as General Counsel

All Audit Clients

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

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

C. Acting in an Advocacy Role

Potential Threats Arising from Acting in an Advocacy Role Before a Tribunal or Court

Audit Clients that are Not Public Interest Entities

R608.8 A firm or a network firm shall not act in an advocacy role for an audit client that is a not public interest entity in resolving a dispute or litigation before a tribunal or court when the

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amounts involved are material to the financial statements on which the firm will express an opinion.

608.8 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for an audit client that is not a public interest entity include:

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

Audit Clients that are Public Interest Entities

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

SUBSECTION 609 – RECRUITING SERVICES

Introduction

609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.256 A1 are relevant to applying the conceptual framework when providing a recruiting service to an audit client.

Requirements and Application Material

Description of Service

609.2 A1 Recruiting services might include activities such as:

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

Risk of Assuming Management Responsibility When Providing a Recruiting Service

R609.3 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. When providing a recruiting service to an audit client, a firm or a network firm provides recruiting services to an audit client, the firm shall be satisfied that it does not assume a management responsibility and that in particular:
(a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and

(b) The client makes all management decisions with respect to the hiring process, including:
   - Determining the suitability of prospective candidates and selecting suitable candidates for the position.
   - Determining employment terms and negotiating details, such as salary, hours and other compensation.

Potential Threats Arising from Providing Recruiting Services

All Audit Clients

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

609.4 A2 Providing the following services does not usually create a threat as long as individuals within the firm or the network firm do not assume a management responsibility:

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

609.4 A3 Factors that are relevant in identifying self-interest, familiarity or intimidation threats, and evaluating the level of any such threats created by providing recruiting services to an audit client, and evaluating the level of such threats include:

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

609.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not audit team members to perform the service.

Recruiting Services that are Prohibited

R609.5 When providing recruiting services to an audit client, the firm or the network firm shall not act as a negotiator on the client’s behalf.

R609.6 A firm or a network firm shall not provide a recruiting service to an audit client if the service relates to:

(a) Searching for or seeking out candidates;
(b) Undertaking reference checks of prospective candidates;
(c) Recommending the person to be appointed; or
(d) Advising on the terms of employment, remuneration or related benefits of a particular candidate.
with respect to the following positions:

(i) A director or officer of the entity; or

(ii) A member of senior management in a position to exert significant influence over the preparation of the client’s accounting records or the financial statements on which the firm will express an opinion.

SUBSECTION 610 – CORPORATE FINANCE SERVICES

Introduction

610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.265 A1 are relevant to applying the conceptual framework when providing a corporate finance service to an audit client.

Requirements and Application Material

Description of Service

610.2 A1 Examples of corporate finance services include:

- Assisting an audit client in developing corporate strategies.
- Identifying possible targets for the audit client to acquire.
- Advising on the potential purchase or disposal price of an asset.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements.

Potential Threats Arising from the Provision of Corporate Finance Services

All Audit Clients

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

610.4 A1 Factors that are relevant in identifying self-review or advocacy threats, and evaluating the level of any such threats, created by providing corporate finance services to an audit client, and evaluating the level of such threats 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.
Advocacy

The extent to which:
- The outcome of the corporate finance advice will directly affect amounts recorded in the financial statements.
- The outcome of the corporate finance service might have a material effect on the financial statements.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R610.8 applies.

Corporate Finance Services that are Prohibited

R610.5 A firm or a network firm shall not provide corporate finance services to an audit client that involve promoting, dealing in, or underwriting or providing investment advice in relation to the shares, debt or other financial instruments issued by the audit client or provide financial investment advice in relation to such shares, debt or other financial instruments.

R610.6 A firm or a network firm shall not provide advice in relation to corporate finance services to an audit client where:

(a) The effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion; and

(b) The audit team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit Clients that are Not Public Interest Entities

Examples of actions that might be safeguards to address self-review or advocacy threats arising from a firm providing corporate finance services to an audit client that is not a public interest entity include:

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

Audit Clients that are Public Interest Entities

Self-review Threats

R610.8 A firm or a network firm shall not provide corporate finance services to an audit client that is a public interest entity if the provision of such services might create a self-review threat, (Ref: Para. R600.13 and R600.15) in relation to the audit of the financial statements on which the firm will express an opinion.

Advocacy Threats

An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance services to an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.
II. Chapter 2 – Proposed Conforming Amendments to Section 400

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Section 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

... General ...

Requirements and Application Material

... General ...

| 400.11 | A firm performing an audit engagement shall be independent.
| 400.12 | A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

Prohibition on Assuming Management Responsibilities

| 400.13 | A firm or a network firm shall not assume a management responsibility for an audit client.
| 400.13 A1 | Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.
| 400.13 A2 | When a firm or a network firm assumes a management responsibility for an audit client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.
| 400.13 A3 | Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees’ work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.

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Taking responsibility for:
- The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
- Designing, implementing, monitoring or maintaining internal control.

Subject to compliance with paragraph R400.14, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit client might create a self-review threat and is addressed in Section 600.

When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client’s management:

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

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

(b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client’s purpose.

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

[Paragraphs 400.15 to 400.19 are intentionally left blank]

Related Entities

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

[Paragraphs 400.21 to 400.29 are intentionally left blank]

Period During which Independence is Required

All Audit Clients

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

(a) The engagement period; and

(b) The period covered by the financial statements.

The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.
R400.31 If an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:

(a) Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or

(b) **Previous** services provided to the audit client by the firm or a network firm in **prior** financial statement periods.

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

400.31 A2 Factors to be considered in such circumstances include whether the results of the service provided might **form part of** or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion, and internal controls in subsequent financial periods including those that the firm will audit.

400.31 A3 Examples of actions that might be safeguards to address such threats to independence include:

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

A circumstance that might eliminate Potential threats to independence created by arising from the provision of a non-assurance service by a firm or a network firm prior to the audit engagement period or prior to the period covered by the financial statements **is where might not impair the independence of the firm following appointment as auditor if the output of such service has been used or implemented** the subject of audit procedures by the **in a period audited by another firm**.

Audit Clients that are Public Interest Entities

R400.32 A firm shall not accept appointment as auditor of a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that would create a self-review threat in relation to the financial statements on which the firm will express an opinion unless:

(a) The provision of such service has ceased,

(b) The firm takes action to address any continuing threats to its independence as auditor arising from the provision of such service; and

(c) The firm determines that, in the view of a reasonable and informed third party, any continuing threats to the firm’s independence **as auditor** have been or **will** be eliminated or reduced to an acceptable level.

Circumstances that might be regarded Actions that might be regarded as actions that will create or reduce representing actions to eliminate or reduce an acceptable level any threats to the firm’s independence from the provision of non-
assurance services to a public interest entity prior to appointment as auditor of that entity include:

- Where the results of the service had been subject to auditing procedures in the course of the audit of the prior year’s financial statements by a predecessor firm
- The firm engages a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, to perform a review of the first audit engagement affected by the self-review threat that is equivalent to consistent with the objective of an engagement quality review.
- The public interest entity engages another firm outside of the network to:
  (i) Evaluate the results of the non-assurance service; or
  (ii) Re-perform the service, in either case, to the extent necessary to enable the other firm to take responsibility for the result of the service.

[Paragraphs 400.33 to 400.39 are intentionally left blank]

III. Chapter 3 – Proposed Consequential Amendments to Section 950

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

SECTON 950

PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENT CLIENTS

Introduction

950.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence.

950.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to assurance clients.

950.4 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to anticipate developing an all-inclusive list all types of non-assurance services that firms might provide to an assurance client. In such circumstances, the conceptual framework apply.
Requirements and Application Material

General

Risk of Assuming Management Responsibilities When Providing a Non-Assurance Service

950.5 A1 When a firm provides a non-assurance service to an assurance client, there is a risk that a firm will assume a management responsibility in relation to the underlying subject matter, of the non-assurance engagement and, in an attestation engagement, the subject matter information of the assurance engagement unless the firm is satisfied that the requirements in paragraphs R900.13 and R900.14 have been complied with.

Accepting an Engagement to Provide a Non-Assurance Service

R950.6 Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

Identifying and Evaluating Threats

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

950.7 A2 Factors that are relevant in identifying and evaluating the different threats that might be created by providing a non-assurance service to an assurance client include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.

- The extent to which the assurance client determines significant matters of judgment (Ref: Para. R900.13 to R900.14).

- Whether the outcome of the service will affect the underlying subject matter and, in an attestation engagement, matters reflected in the subject matter information of the assurance engagement, and, if so:
  - The extent to which the outcome of the service will have a material effect on the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement.
  - The extent to which the assurance client determines significant matters of judgment (Ref: Para. R900.13 to R900.14).

- The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.

- The fees relating to the provision of the non-assurance services.
Multiple Non-assurance Services Provided to the Same Assurance Client

950.8 A1 A firm might provide multiple non-assurance services to an assurance client. In these circumstances the combined effect of threats created by providing those services is relevant to the firm’s evaluation of threats.

Self-Review Threats

950.9 A1 A self-review threat might be created if, in an attestation engagement, the firm is involved in the preparation of subject matter information which subsequently becomes the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

(a) Developing and preparing prospective information and subsequently issuing an assurance report on this information.

(b) Performing a valuation that is related to or forms part of the subject matter information of an assurance engagement.

Assurance clients that are public interest entities

950.10 A1 Expectations about a firm’s independence are heightened when an assurance engagement is undertaken by a firm for a public interest entity and the results of that engagement will be:

(a) Made available publicly, including to shareholders and other stakeholders; or

(b) Provided to an entity or organization established by law or regulation to oversee the operation of a business sector or activity.

Consideration of these expectations form part of the reasonable and informed third party test applied when determining whether to provide a non-assurance service to an assurance client.

950.10 A2 If a self-review threat exists in relation to an engagement undertaken in the circumstances described in paragraph 950.10 A1 (b), the firm is encouraged to disclose the existence of that self-review threat and the steps taken to address it to the party engaging the firm or those charged with governance of the assurance client and to the entity or organization established by law or regulation to oversee the operation of a business sector or activity to which the results of the engagement will be provided.

Materiality in Relation to an Assurance Client’s Information

950.11 A1 Materiality is a factor that is relevant when identifying and in evaluating threats created by providing a non-assurance service to an assurance client. The concept of materiality in relation to an assurance client’s subject matter information is addressed in International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.
Addressing Threats

950.12 A1 Paragraphs 120.10 to 120.11 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

950.12 A2 Threats to independence created by providing a non-assurance service or multiple services to an assurance client vary depending on facts and circumstances of the assurance engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

950.12 A3 Examples of actions that might be safeguards to address such threats include:

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

950.12 A4 Safeguards might not be available to reduce the threat created by providing a non-assurance service to an assurance client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm to:

  (a) Adjust the scope of the proposed service to eliminate to the circumstances that are creating the threat;

  (b) Decline or end the service that creates the threat that cannot be eliminated or reduced to an acceptable level; or

  (c) End the assurance engagement.

IV. Chapter 4 – Proposed Conforming Amendments to Section 900

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

Section 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

... Requirements and Application Material

General

R900.11 A1 A firm performing an assurance engagement shall be independent of the assurance client.

900.11 A1 For the purposes of this Part, the assurance client in an assurance engagement is the responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).

900.11 A2 The roles of the parties involved in an assurance engagement might differ and affect the application of the independence provisions in this Part. In the majority of attestation engagements, the responsible party and the party taking responsibility for the subject matter information are the same. This includes those circumstances where the responsible party involves another party to measure or evaluate the underlying subject matter against...
the criteria (the measurer or evaluator) where the responsible party takes responsibility for the subject matter information as well as the underlying subject matter. However, the responsible party or the engaging party might appoint another party to prepare the subject matter information on the basis that this party is to take responsibility for the subject matter information. In this circumstance, the responsible party and the party responsible for the subject matter information are both assurance clients for the purposes of this Part.

900.11 A3 In addition to the responsible party and, in an attestation engagement, the party taking responsibility for the subject matter information, there might be other parties in relation to the engagement. For example, there might be a separate engaging party or a party who is a measurer or evaluator other than the party taking responsibility for the subject matter information. In these circumstances, applying the conceptual framework requires the professional accountant to identify and evaluate threats to the fundamental principles created by any interests or relationships with such parties, including whether any conflicts of interest might exist as described in Section 310.

A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

Prohibition on Assuming Management Responsibilities

R900.13 A firm shall not assume a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement provided by the firm.

900.13 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

900.13 A2 When a firm assumes a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

900.13 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees’ work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
Taking responsibility for designing, implementing, monitoring and maintaining internal control.

900.13 A4 Subject to compliance with paragraph R900.14, providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility.

R900.14 When performing a professional activity for an assurance client that is related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related 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 activities. Such an individual, preferably within senior management, would understand:

(i) The objectives, nature and results of the activities; and

(ii) The respective client and firm responsibilities.

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

(b) Provides oversight of the activities and evaluates the adequacy of the results of the activity performed for the client’s purpose; and

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

Multiple Responsible Parties and Parties Taking Responsibility for the Subject Matter Information

900.14 A1 In some assurance engagements, whether an attestation engagement or direct engagement, there might be several responsible parties or, in an attestation engagement, several parties taking responsibility for the subject matter information. In determining whether it is necessary to apply the provisions in this Part to each individual responsible party or each individual party taking responsibility for the subject matter information in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party or party taking responsibility for the subject matter information would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

(a) The materiality of the underlying subject matter or subject matter information for which the particular party is responsible in the context of the overall assurance engagement.

(b) The degree of public interest associated with the assurance engagement.

If the firm determines that the threat created by any such interest or relationship with a particular party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of this section to that party.
Network Firms

R900.15 When a firm knows or has reason to believe that interests and relationships of a network firm create a threat to the firm's independence, the firm shall evaluate and address any such threat.

900.15 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

Related Entities

R900.16 When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 900.17 to 900.29 are intentionally left blank]

Period During which Independence is Required

R900.30 Independence, as required by this Part, shall be maintained during both:

(a) The engagement period; and
(b) The period covered by the subject matter information.

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

R900.31 If an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:

(a) Financial or business relationships with the assurance client during or after the period covered by the subject matter information but before accepting the assurance engagement; or
(b) Previous services provided to the assurance client.

R900.32 Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the assurance team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.

900.32 A1 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer review the assurance or non-assurance work as appropriate.
R900.33
If a non-assurance service that would not be permitted during the engagement period has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:

(a) The firm is satisfied that:
   (i) The non-assurance service will be completed within a short period of time; or
   (ii) The client has arrangements in place to transition the service to another provider within a short period of time;

(b) The firm applies safeguards when necessary during the service period; and

(c) The firm discusses the matter with the party engaging the firm or those charged with governance of the assurance client.

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Communication with Those Charged With Governance

900.34 A1 Paragraphs R300.9 to 300.9 [A2] set requirements and application material that is relevant to the communication with a party engaging the firm or those charged with governance of the assurance client.

900.34 A2 Communication with a party engaging the firm or those charged with governance of the assurance client might be appropriate when significant judgments are made, and conclusions reached, to address threats to independence in relation to an assurance engagement because the subject matter information of that engagement is the outcome of a previously performed non-assurance service.

[Paragraphs 900.35 to 900.39 are intentionally left blank]

V. Chapter 5 – Proposed Conforming Amendment to Section 525

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Section 525
TEMPORARY PERSONNEL ASSIGNMENTS

…

Requirements and Application Material

RS25.4 A firm or network firm shall not loan personnel to an audit client unless the firm or network firm is satisfied that:

(a) Such assistance is provided only for a short period of time;

(b) Such personnel will not assume management responsibilities and the audit client will be responsible for directing and supervising the activities of such personnel;

(c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and

(d) Such personnel will not undertake or be involved in professional services prohibited by the Code if undertaken by the firm or network firm.