

Non-Assurance Services (Turnaround)

Richard Fleck, Task Force Chair

IESBA Meeting

Virtual

September 29, 2020

Objective

- To respond to the feedback on certain matters discussed during the September 14 & 15 IESBA sessions
 - Advice & recommendations (§600.10 A1, §600.10 A2, §600.10 A3)
 - SRT prohibition (§R600.13)
 - Communication with TCWG about NAS (§R600.20, §R600.21)
 - Tax services (§R604.4, §604.12 A2)
 - SRT & Temporary Personnel Assignments (§R525.4)
 - Safeguards & Tech-related NAS

**An updated mark-up of proposed text will be circulated for comment*

A&R – IESBA Sept 2020 Feedback

- + Questions on the interaction between A&R and audit process
 - Recommendation to reposition §601.2 A2 as §600.10 A3
- + Various drafting suggestions including:
 - To reflect A&R provided in the normal course of audit
 - To reflect a scope-out rather than make "exception" to the SRT prohibition
 - Remove reference to auditing standards as they do not refer to A&R
- ✘ Suggestion that SRT is not a concern when a firm provides A&R to an audit client if the firm does not assume a management responsibility → would reverse ED position
- ? Elevate A&R AM to a requirement if it is an "exception" to the SRT prohibition?

A&R Provided as Part of the Audit Process

§600.10 A1 [unchanged from Sept 14/15 version]

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 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 [replaces Sept 14/15 version]

A firm or network firm may provide advice and recommendations to an audit client in the course of or arising from an audit of the financial statements of that audit client. Examples of such advice and recommendations are set out in paragraph 601.2 A2.

SRT – IESBA Feedback & Task Force Revisions

+ Concerns & questions about the term [risk/ possibility] and what it means

? Preferences expressed for use of both "will" and "might"

§R600.13 [mark-up from Sept 14/15 version]

Before providing a non-assurance service to an audit client, a firm or network firm shall determine whether ~~there is a~~ [risk/ possibility] ~~that~~ the provision of the ~~that~~ non-assurance service might~~will~~ create a self-review threat by evaluating whether there is a risk that:

- a) The results of the service will affect the accounting records, or the internal controls over financial reporting, or the financial statements on which the firm will express an opinion;
- b) In the course of the audit of those financial statements, the results of the service will be subject to audit procedures; and
- c) 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.

Communication with TCWG (1)

Two Issues of Principle

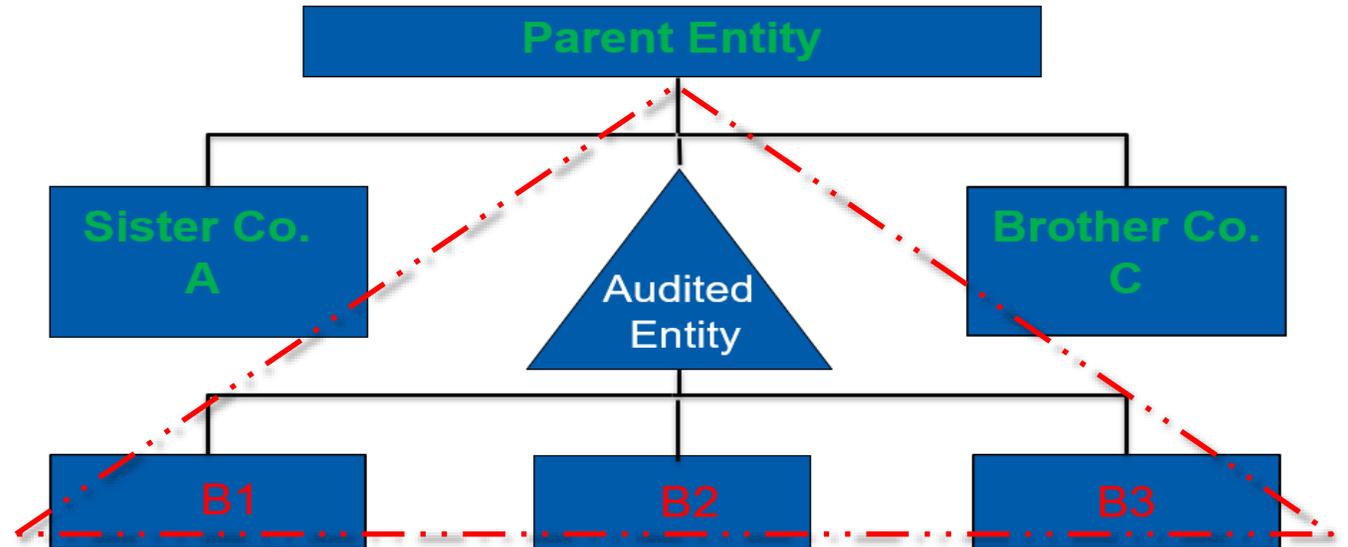
§R600.20

Should requirement apply to:

- Those related entities over which the PIE has direct or indirect control; or
- Only those entities included in the consolidated financial statements of the PIE?

§R600.21

- Should TCWG be provided with information about NAS provided to entities over which the PIE does not have direct or indirect control?
- Concerns at provision of price sensitive information etc., and provision of incomplete information



Communication with TCWG (2)

Other issues

- §R600.20 deals with two aspects: (i) NAS permissibility & (ii) TCWG communication
- Views that §R400.20 already provides the necessary protection
- §R600.20 doesn't account for assessment of threats already at an acceptable level
- Concurrence should be obtained from different TCWG of multiple PIEs

Definitions – Related Entities & Audit Client

§R400.20 [Extant Code]

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.

Audit client [Extant Glossary]

An entity in respect of which a firm conducts an audit engagement. When the client is a listed entity, audit client will always include its related entities. **When the audit client is not a listed entity, audit client includes those related entities over which the client has direct or indirect control.** (See also paragraph R400.20.) In Part 4A, the term “audit client” applies equally to “review client.”

["Related entity"](#) is defined in the Glossary

Communication with TCWG – Permissibility

§R600.20 [replaces R600.20(a) in Sept 14/15 version]

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 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.

§600.20 A1 [new AM replaces R600.21 in Sept 14/15 version]

The evaluation required to reach the conclusion in paragraph R600.20 might require a firm to consider whether a non-assurance service provided by it or by a network firm to a related entity over which an audit client does not have direct or indirect control creates a threat to the firm's independence as auditor of the public interest entity.

R600.20 is set out in two separate "R" paragraphs with stand-alone supporting "AM"

Communication with TCWG About NAS

§R600.21 [replaces R600.20(b) in Sept 14/15 version]

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 any threat to independence has been eliminated or that safeguards that the firm proposes to apply will reduce such threat to an acceptable level.

§600.21 A1 [revised from Sept 14/15 version]

The process by which the firm obtains the concurrence of those charged with governance 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.

§600.21 A2 [revised from Sept 14/15 version]

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

Tax services – IESBA Feedback

Two Questions

- What threshold does the Board consider appropriate → 50.1% or higher?
- What term achieves that objective?

Other Considerations

- Translation
- Support for “significant purpose” in place of “primary purpose”:

Task Force Observations

- Terms used in the extant Code
 - “Likely to prevail” (1)
 - “Reason to believe” (17)
 - “More likely than not to prevail” (0)

Loan of Firm Personnel to an Audit Client

- Loan of firm personnel to audit client might create SRT → No change to §R524.4 proposed in NAS ED



Task Force is proposing the following revisions:

§R525.4 [mark-up from extant Code]

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) ~~The personnel are not involved in providing non-assurance services that would not be permitted under Section 600 and its subsections; and~~
- b) Such ~~The~~ personnel will ~~do~~ not assume management responsibilities and the audit client will be ~~is~~ responsible for directing and supervising the activities of such ~~the~~ 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.

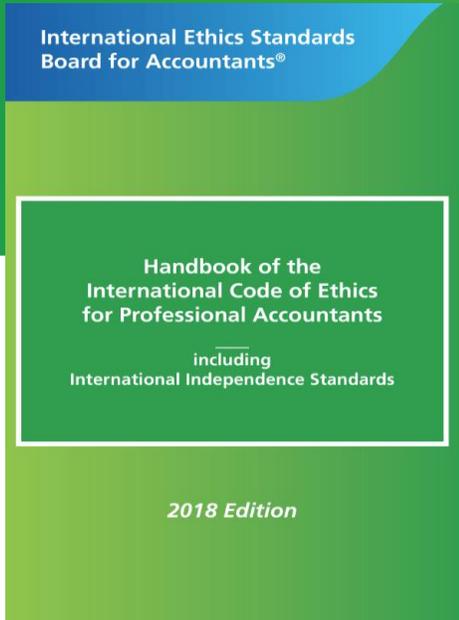
Other Matters

NAS Safeguards

- Reflecting on Board's feedback about regulatory concerns raised about NAS-safeguards involving a professional within the same firm, the Task Force
 - Does not propose to change to the position taken in the extant Code
 - Will explain Board position in discussion with IOSCO, IFIAR and CEAOB scheduled for Q4

Technology-related NAS

- Task Force does not propose to pursue the tech-related revisions discussed earlier in the meeting:
 - Automated routine or mechanical services – §601.4 A2
 - Implementing "off-shelf" accounting or financial information software not developed by the firm or network firm – §606.3 A1(c)



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