

Non-Assurance Services—Draft Explanatory Memo (EM)

Note to Meeting Participants

This is a staff-prepared document which will accompany the Non-Assurance Services exposure draft. Subject to the IESBA's anticipated approval of the NAS ED, the draft will be updated after the December 2019 IESBA meeting to incorporate the Board's viewpoints and decisions.

Please email any reactions or comments on this draft to dianejules@ethicsboard.org.

I. Introduction

1. This memorandum provides background to, and an explanation of, the proposed revisions to the non-assurance services (NAS) section of the International Independence Standards in the Code (the IIS).
2. [The IESBA approved the proposed changes for exposure at its December 2019 meeting.]

II. Background and Overview

A. Project Objective and Scope

3. The NAS project is a pre-commitment in the IESBA's [Strategy and Work Plan, 2019-2023](#) and is responsive to regulatory stakeholders' and the Public Interest Oversight Board's (PIOB) broad concerns about NAS permissibility. The NAS project was approved in September 2018 and its objective is to ensure that all the NAS provisions in the IIS are robust and of high quality for global application, thereby increasing confidence in the independence of audit firms.
4. The NAS project was informed by the [feedback](#) on a Briefing Paper, [Non-Assurance Services – Exploring Issues to Determine a Way Forward](#) that was discussed at four global roundtables,¹ as well as advice from the IESBA Consultative Advisory Group (CAG). The Board also took into account the suggestions that the IESBA received from respondents to the December 2015 Exposure Draft (ED), [Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#) and the January 2017 ED, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments](#), as well as respondents to the IESBA's November 2017 [Fees Questionnaire](#).

B. Revisions to the NAS Provisions in Recent Years

5. The IESBA has taken a phased-approach to revising the NAS provisions in the IIS.
 - In April 2015, the Board released [Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients](#).²

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

² The 2015 NAS revisions became effective in April 2016 and:

- Prohibit auditors from assuming management responsibility when providing NAS to audit clients;

- In April 2018, the Board established safeguards-related improvements that clarified how firms and network firms are to apply the conceptual framework to identify, evaluate and address threats to independence created by providing NAS to audit and other assurance clients.

C. Current NAS Provisions

6. The current NAS provisions in the IIS came into effect in June 2019 and are set out within Part 4A, Section 600³ for audit and review engagements, and Part 4B, Section 950⁴ for assurance engagements other than audit and review engagements.
7. The NAS provisions are to be read and applied in conjunction with the other provisions in the other Parts and sections of the Code. Because of the Code’s “building blocks” architecture, the NAS provisions build on the foundational provisions set out in Parts 1 to 3, in particular the general provisions that apply to professional accountants in public practice when applying the conceptual framework (i.e., Sections 120⁵ and 300⁶) in addition to those set out in the IIS. Users’ of the IIS are expected to have a proper understanding of those foundational provisions.

D. Highlights of Proposed Revisions

8. The proposed revisions to the IIS in this ED deal with NAS permissibility issues and clarify the circumstances in which firms and network firms may or may not provide a NAS to an audit or assurance client. It is anticipated that the proposed revisions will help achieve consistent application of the NAS provisions across firms and jurisdictions.
9. The proposals introduce several new requirements that expressly prohibit firms and network firms from providing certain types of NAS to their audit clients. For example, in the case of an audit client that is a PIE,⁷ the proposals include a prohibition on a firm or network firm from providing a NAS that creates a self-review threat to independence. The proposals also include:
 - Strengthened provisions for identifying and evaluating threats, including those that are created

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- Remove provisions that permitted an audit firm to provide certain bookkeeping and taxation services to public interest entity (PIE) audit clients in emergency situations;
 - Introduce new and clarified application material regarding what constitutes management responsibility; and
 - Clarify guidance regarding the concept of “routine or mechanical” services relating to the preparation of accounting records and financial statements for audit clients that are not PIEs.

³ Section 600, *Provision of Non-assurance Services to an Audit Client*

⁴ Section 950, *Provision of Non-assurance Services to Assurance Clients Other Than Audit and Review Engagement Clients*

⁵ Section 120, *The Conceptual Framework*

⁶ Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*

⁷ As further discussed below, the IESBA has committed to undertaking a project to review and revise the definition of a PIE. The Code defines a PIE as:

- (a) A listed entity; or
- (b) An entity:
 - (i) Defined by regulation or legislation as a PIE; or
 - (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

by the provision of multiple NAS to the same audit client.

- Enhanced clarity about the relevance of the concept of materiality in applying the NAS provisions.
 - The proposals retain the concept of materiality as an example of a factor that a firm considers in evaluating the level of an identified threat.
 - However, in the case of audit clients that are PIEs, firms and network firms will no longer be permitted to provide a NAS to an audit client because it is determined that the outcome or the result of the NAS will not be material to the financial statements (i.e., the materiality qualifier is withdrawn).
 - In a few instances, the materiality qualifier is withdrawn for audit clients that are non-PIEs (see the section titled, *Materiality and Other Matters Relevant to Non-PIEs*).
 - More robust provisions to address threats, including new examples of actions that might be safeguards to address threats to independence.
 - New requirements to strengthen firm communication with those charged with governance (TCWG) about NAS-related matters, including in the case of audit clients that are PIEs, a requirement for firms to obtain concurrence from TCWG for the provision of the NAS.
 - Within the subsections, the descriptions of the specific types of NAS that are covered in the Code are improved and, in some cases, expanded. New provisions are established for the provision of certain types of NAS (e.g., acting as an expert witness as part of litigation support services). Also, some subsections are substantively revised and new application material is added to explain the circumstances in which a self-review threat is not created (e.g., accounting and bookkeeping services, and tax advisory and tax planning services).
10. Some structural refinements have been made in Section 600. For example, the provisions that prohibit firms and network firms from assuming a management responsibility are given more prominence by being repositioned to Section 400⁸ of the Code .
11. A staff-prepared Mapping Table of Comparison supplements this Exposure Draft and is provided to assist respondents understand the nature of the proposed revisions to the current Code.

General Versus Specific Provisions

12. The NAS proposals continue to include general NAS provisions that apply in all circumstances as well as the more specific requirements and application material that apply when firms and network firms provide certain types of NAS in subsections 601 to 610. This approach helps achieve an appropriate balance between (a) the need to have NAS provisions that are sufficiently specific to drive the consistency needed across firms in applying the NAS provisions globally, and (b) having a robust set of principles-based general NAS provisions that:
- Accommodate the need to supplement the provisions in the Code with national laws and regulations that deal with jurisdictional-level circumstances as well as the evolving nature of the services that firms and network firms provide to their audit clients. In this regard, the proposals include a reminder for firms and network firms to understand and comply with the

⁸ Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

NAS provisions in national laws and regulations; and

- Ensure that the Code will have continued relevance as business practices, technology, and financial markets evolve and disrupt the manner in which firms and network firms perform and deliver services to their audit clients.

E. Interactions with Current and Future IESBA Work Streams

Fees

13. This ED focuses on revisions to the NAS provisions in the Code. The IESBA also approved proposed revisions to the Fees provisions in the IIS in [December 2019], which include several proposals to emphasize a firm's responsibilities with respect to fees paid by an audit client. In particular, in the case of audit clients that are PIEs, these proposals aim to promote enhanced transparency about fees to TCWG and to the public.
14. The NAS and Fees EDs do not include proposals relating to fee caps. The IESBA considered the suggestion that a fee cap in relation to NAS should be included in the IIS to address the issue of independence in appearance. The IESBA notes that fee caps are already established in certain jurisdictions (e.g. in the European Union) and is of the view that such restrictions would not be operable at the global level. The IESBA carefully considered the feedback from roundtable participants who, with the exception of some regulatory participants, expressed little or no support for establishing fee restrictions (e.g., a fee cap) in the Code.⁹
15. Instead of establishing a fee-cap, the IESBA's NAS and Fee proposals collectively seek to improve transparency about fee-related matters, including fees for services other than audit fees (including NAS fees). In the case of audit clients that are PIEs, the proposals in the NAS and Fees EDs:
 - Establish a threshold to trigger a re-evaluation of threats and a review of actions that might be safeguards.
 - Include provisions that will promote improved firm communications with TCWG about NAS and fee-related matters and enhance transparency about fees to the public.
 - Include application material to assist firms within a network that provide NAS to audit clients navigate some of the practical challenges involved in accessing fee-related information.
16. Some stakeholders have questioned whether the IESBA has a role to play in responding to broader concerns about audit quality and auditor independence that might arise from the multi-disciplinary

⁹ With respect to fee-caps, roundtable participants, including some investor stakeholders, expressed the following views:

- With enhanced transparency about NAS and NAS fees, market forces would address the NAS issues.
- IESBA would be going beyond its remit in establishing fee restrictions, in particular, fee caps in the Code. They noted that fee caps are often dealt with in sovereign and anti-trust laws at the jurisdiction level.
- Establishing fee restrictions involves complex definitional issues.
- Some firms and IFAC member bodies cautioned against establishing a NAS fee threshold because doing so might have the unintended consequence of signaling to firms that do not typically provide NAS to their audit clients to revisit their policy.
- Establishing fee restrictions is very granular and would be anathema to principles.

business model of firms that includes the provision of audit services together with consulting and advisory services to a wide array of clients.

17. The NAS and Fees projects are not intended to expressly deal with these concerns as such concerns extend beyond the IESBA's mandate and will require multi-stakeholder dialogue. Nevertheless, the two projects include proposals that strengthen the IIS with the introduction of additional provisions relating to independence of mind and independence in appearance in an explicit manner. For example, the NAS and Fees projects:
 - Introduce proposed new requirements for firms to improve communications about fee- and NAS-related matters to TCWG and to the public in the case of audit clients that are PIEs. The IESBA believes that improved communication and transparency will provide meaningful information that overtime will better inform stakeholder perspectives about auditor independence.
 - Build on and complement the provisions in Parts 1 to 3 of the Code that help with compliance with the fundamental principles, including integrity and objectivity. For example, the NAS proposals include new application material in Section 600 to emphasize that the level and the nature of the fee charged for a NAS provided to an audit client is a relevant factor in identifying and evaluating threats to independence.
18. A further discussion of the Board's specific proposals in relation to NAS is included in the section titled, *Transparency and Communication with TCWG*. The timeline and planned effective dates for the NAS and Fees projects are aligned.

Technology-related Revisions

19. In December 2018, the IESBA approved the terms of reference for its Technology Working Group to undertake fact-finding in relation to trends and developments in technology. Among other matters, the IESBA is seeking to understand the ethical implications of transformations in technology on the professional activities performed by firms. In December 2019, the IESBA considered the Working Group's final report, which among other matters includes [suggestions as to how the Code, including the NAS provisions, might be revised to provide more guidance about the provision of technology-enabled services].
20. At the same time, the IESBA received calls for more guidance in the IIS for new and emerging services, including those arising from advances in technology. For example, the Board considered:
 - Modernizing the terminology and examples in subsection 606 with respect to technology (e.g. hosting, cyber security and outsourcing).
 - Introducing a new subsection titled Technology-enabled Services.
21. At its December 2019 meeting, the IESBA accepted the Working Group's recommendations and agreed that technology-related changes to the NAS provisions of the Code should be part of a Technology project that will commence in 2020. That project will involve a review of the entire Code, including the information technology systems services provisions in subsection 606. It will take into account suggestions put forward by the NAS Task Force. The future Technology Task Force will also consider whether other forms of guidance should be developed to help firms and others (e.g., regulators) navigate the disruptions caused by the developments in technology.

Definition of PIE

22. Subheadings are included within the extant IIS to distinguish the NAS provisions that apply to: (i) audits of all entities; (ii) audits of clients that are not PIEs (non-PIEs); and (iii) audits of clients that are PIEs. This approach has been retained in the NAS proposals. Most of the revisions to the NAS provisions apply to audit clients that are PIEs, acknowledging a well-established view that stakeholder concerns about a firm's independence are heightened in the case of an audit of a PIE. This view is specifically acknowledged in paragraph 600.13 A1.
23. Some stakeholders have questioned the IESBA's rationale for having differential provisions for audits of entities that are PIEs and non-PIEs. In particular, stakeholders from the small and medium practices (SMP) community have expressed concern that the NAS proposals are increasingly disproportionate in those circumstances where firms provide audit and review services to small entities that fall within the PIE definition. The IESBA considered many suggestions with respect to responding to those concerns, including:
- Avoiding a distinction between the requirements in the Code for PIEs and non-PIEs – i.e., that NAS provisions in the Code should be the same for all entities.
 - Adopting a different approach to categorize the provisions in the Code in such a way as to give greater consideration to the specific circumstances of small- and medium-sized entities (SMEs) / SMPs (e.g., establishing provisions for audits of SMEs versus non-SMEs; or owner-managed enterprises (OMEs) versus non-OMEs).
 - Clarifying the definition of a PIE in the Code to better delineate the differences between the various jurisdiction-level approaches and the approach taken in the Code, and whether there would be merit in seeking greater convergence at the international level. For example, representatives of the Consultative Advisory Group (CAG) and the Forum of Firms have noted that a clearer definition of PIE is needed in order for the NAS proposals to achieve its desired outcomes, in particular with respect to enhanced consistency of application.
24. In progressing the NAS project, it became apparent that the timeline for undertaking a review of the PIE definition needed to be accelerated. Accordingly, the IESBA approved a project proposal [insert link] in December 2019. The project will be closely coordinated with the IAASB.
25. The IESBA has committed to coordinating this project with the NAS and Fees projects so that any revised provisions arising from the three projects will have the same effective date.

F. IAASB-IESBA Coordination Matters

26. In developing the proposals, the IESBA has pursued coordination with the IAASB to ensure that the proposed revisions to the NAS proposals in the IIS are consistent with the terms and concepts in the IAASB's ISA 260 (Revised).¹⁰ A further discussion of the Board's specific proposals relating to improved auditor communication is included in the section titled, *Transparency and Communication with TCWG*.

¹⁰ International Standard on Auditing (ISA), 260 (Revised), *Communication with Those Charged with Governance*

III. Significant Matters

A. Self-review Threat Prohibition (for PIEs)

27. After extensive deliberation and having regard to the input provided by many stakeholders, including global roundtable participants and the CAG, the IESBA is proposing a new requirement that will prohibit a firm or network firm from providing a NAS to an audit client that is a PIE if a self-review threat will be created in relation to the audit of the financial statements on which the firm will express an opinion (the self-review threat prohibition in paragraph R600.14). This is based on the Board's view that, in the case of audit clients that are PIEs, self-review threats cannot be eliminated and safeguards are not capable of being applied to reduce them to an acceptable level (see paragraph 600.13 A2).
28. To complement this new prohibition, new application material is being proposed to help firms identify threats to independence that are created by providing NAS to audit clients, in particular self-review threats. See paragraphs 600.9 A2, 600.12 A1 to 600.13 A2, and the paragraphs within each subsection relating to factors that are relevant in identifying and evaluating threats.

Providing Advice and Recommendations

29. The introduction of the self-review threat prohibition raised questions about:
- The interaction between the existing prohibition relating to assuming management responsibility for an audit client and the provision of advice and recommendations to assist management.
 - Whether the self-review threat prohibition would apply when firms provide advice and recommendations to audit clients that are PIEs during a NAS engagement.
30. The IESBA has proposed new application material in paragraph 600.10 A1 of the general NAS provisions that states the following:
- 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 600.12 A2 [*i.e.*, *determine whether a self-review threat is created*] having regard to the nature of the advice and recommendations and how such advice and recommendations might be implemented by the audit client. If a self-review threat is identified, application of the conceptual framework requires the firm to address the threat where the audit client is not a public interest entity. If the audit client is a public interest entity, paragraph R600.14 applies.
31. Within the subsections, the IESBA is proposing new application material to indicate when a self-review threat will not be created. For example, with respect to tax advisory and tax planning services, the proposals state that providing tax advisory and tax planning services that include advice and recommendations will not create a self-review threat if such advice and recommendations (see paragraph 604.12 A2):
- (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 over a long period and has not been challenged by the relevant tax authority); or
 - (c) Have a basis in tax law that is likely to prevail.

32. The proposed new application material is adapted from the second bullet in extant paragraph 604.7 A3 and is responsive to a call from some stakeholders for an explicit statement about the circumstances in which tax advisory and tax planning services would be permissible. The Board deliberated at length whether to include the last condition “have a basis in tax law that is likely to prevail” because of the element of subjectivity it contains. The Board is seeking views from respondents about whether 604.12 A2 (c) should be retained in the proposals.

B. Materiality

NAS that is Prohibited, if Material (for Audit Clients that are PIEs)

33. With respect to audit clients that are PIEs, the extant Code allows firms and network firms to provide certain types of NAS that would otherwise be prohibited if the firm or network firm determines that the outcome or result of the NAS is immaterial or not significant to the financial statements on which the firm will express an opinion.¹¹ A high-level summary of those prohibited NAS is included in a November 2019 publication titled, [Summary of Prohibitions Applicable to Audit Clients that are Public Interest Entities](#).
34. Some stakeholders have suggested that the NAS prohibitions in the IIS should be more restrictive. They questioned the appropriateness of an approach that allows firms the discretion to consider materiality in determining whether to provide a NAS to an audit client and urged the Board to explore limiting the availability of such discretion.
35. In response and given heightened public concerns about auditor independence for PIEs, the IESBA is proposing that the materiality qualifier be withdrawn for audit clients that are PIEs. The relevant prohibitions would therefore apply even if the outcome or result of the NAS is immaterial.

NAS that is Prohibited, if Material (for All Audit Clients)

36. The following three types of NAS are prohibited for all audit clients in the extant Code if the outcome of the NAS is material:
- Tax planning and tax advisory services when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has reasonable doubt about the appropriateness of that treatment or presentation (see [R604.8 of the extant Code](#)).
 - Tax services that involve assisting in the resolution of tax disputes when the services involve acting as an advocate for the client before a public tribunal or court (see [R604.11 of the extant Code](#)).
 - Providing corporate finance services to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has reasonable doubt about the appropriateness of that treatment or presentation (see [R610.5 of the extant Code](#)).
37. In finalizing its proposals, the IESBA considered questions about whether such services should be prohibited for audit clients that are non-PIEs and the suggestion that the IIS should allow for the application of safeguards in those situations. The IESBA reaffirmed the position in the extant IIS that if the outcome of such NAS (i.e., those listed in paragraph 36) will have a material effect on the

¹¹ See extant Code Section 600, paragraphs R603.5, R604.6, R604.8, R605.5, R604.11, R606.5, 607.3 A4, R608.6.

financial statements, there are no actions that can eliminate threats to independence that might be created by providing these services to an audit and that safeguards are not capable of reducing the threats to independence – actual or perceived – to an acceptable level.

38. The IESBA plans is proposing that the materiality qualifier should be withdrawn for all audit clients. The implication of this proposal is that for non-PIEs, the proposal would be more restrictive than the extant IIS.
39. Although the proposal goes beyond the requirement in the extant IIS, the Board is of the view that in light of the public's current expectations of firm independence, there is a need to revise the extant position in circumstances in which:
 - The effectiveness of tax or corporate finance advice is dependent on a particular accounting treatment or presentation and the audit team has reasonable doubt about the appropriateness of that treatment or presentation
 - A firm or a network firm assists in the resolution of tax disputes when the services involve acting as an advocate for the client before a public tribunal or court.
40. Some stakeholders with whom IESBA representatives engaged in developing the proposals have expressed concern about the practical implications of this proposal for SMPs.
41. The Board is therefore seeking views from respondents about whether, in the context of the public's current expectations with respect to auditor independence, a firm or a network firm should be allowed to provide NAS in the circumstances described in paragraph 36 even if immaterial.

Other Issue Relating to Materiality

42. Some stakeholders have suggested that the IESBA clarify how the concept of materiality should be applied under the Code.
43. The extant Code contains application material relating to materiality in relation to an audit client's financial statements. This application material, which was introduced as part of the Board's Safeguards project in December 2017, explains that the determination of materiality involves the exercise of professional judgment; is impacted by both quantitative and qualitative factors; and is affected by perceptions of the financial information needs of users. The new application material also refers readers to the relevant IAASB standard that deals with materiality (see extant paragraph 600.5 A3).
44. The NAS proposals retain extant paragraph 600.5 A3 and clarifies that the concept of materiality is relevant as a factor in identifying and evaluating threats to independence.

G. Transparency and Communication with TCWG

45. Effective oversight by TCWG, including audit committees, contributes to supporting audit quality and increasing market confidence in the quality of information in financial reporting. The IAASB's International Standards require auditor communication about certain ethics and independence

matters in the case of listed entities.¹² The extant Code states that “even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and TCWG regarding relationships and other matters that might, in the firm’s opinion, reasonably bear on independence.”¹³ It does not repeat the provisions that are included in the IAASB’s standards.

46. Some stakeholders, including participants in the global roundtables and the CAG, have suggested that the IIS should, at a minimum, reflect the provisions relating to auditor communications with TCWG about independence and NAS specific matters that are established in the IAASB’s International Standards. It was also suggested that the IIS should require TCWG to approve the NAS to be performed as well as the fees to be charged by the audit firm for providing the NAS – an approach that already exists in some jurisdictions. More broadly, questions have been raised about whether TCWG are in need of more guidance or best practices to promote and support audit quality.¹⁴
47. The IESBA agrees that improved communication by firms and network firms with TCWG about NAS, including NAS fees, provides enhanced transparency which, in turn, will support good corporate governance practices and provide information to help TCWG better assess the firm’s independence.

Audit Clients that are PIEs

48. With respect to audit clients that are PIEs, the proposals:
 - Require the firm to provide TCWG with sufficient information to enable them to make an informed decision about the impact of the provision of such NAS on the firm’s independence.
 - Require the firm or the network firm to obtain concurrence from TCWG for the provision of a NAS as well as the firm’s conclusion 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.
49. The proposals establish new application material with examples to help the firm determine the nature of information that should be provided to TCWG. This includes:

¹² Paragraph 17 of ISA 260 (Revised) requires that in the case of listed entities, the auditor communicate with TCWG about ethics and independence matters in relation to the engagement team and others in the firm and network firm as appropriate. This communication is required to include a statement about:

- (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor’s professional judgment, may reasonably be thought to bear on independence, including **total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity**. These fees shall be allocated to categories that are appropriate to assist TCWG in assessing the effect of services on the independence of the auditor; and
- (ii) The **related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level**.

¹³ See Part 4A, Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*, paragraphs 400.40 A1 to 400.40 A2. The Code also notes that such auditor communication with TCWG enables TCWG to:

- (a) Consider the firm’s judgments in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
- (c) Take appropriate action.

¹⁴ For example, see the International Organization of Securities Commissions (IOSCO) [Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality](#) that was released in April 2018.

- The nature and scope of the NAS to be provided.
 - Any threats to independence identified by the firm arising from the provision of such NAS.
 - Whether such threats 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.
 - How such actions will eliminate or reduce the threats to an acceptable level.
50. With respect to the process or manner in which firms obtain concurrence from TCWG, the proposals allow for maximum flexibility so as to accommodate varying corporate governance regimes. As a result, the firm and TCWG may put in place the process that is suitable for their circumstances. For example, concurrence may be obtained either on an individual engagement basis, under a general policy, or via other means. (See paragraph 600.19 A1.)
51. As part of its deliberations, the IESBA considered whether the proposals should indicate how firms and network firms may apply the new communication provisions in a group audit context and in the case of related entities. The IESBA has not made any change to the extant Code and so its proposals relate only to related entities over which the audit client has direct or indirect control.
52. With respect to group audits, the IESBA notes that the IAASB is considering revisions to its ISA 600¹⁵ standard (which deals with special considerations that apply in audits of group financial statements). The IESBA is monitoring the progress of this project and will pursue coordination with the IAASB as part of a separate project to consider group audit implications for the Code.

Communication with TCWG for Other Assurance Engagements

53. The IESBA believes that it is in the public interest to enhance communication with TCWG about independence matters with respect to all assurance engagements other than audits and reviews. Accordingly, new application material is proposed for inclusion in Section 900¹⁶ to mirror existing application material in Section 400 of the extant Code. This proposal is intended to encourage firms to communicate with TCWG about significant judgments made and conclusions reached to address threats to independence created by providing NAS to assurance clients.
54. The primary focus of the NAS proposals are to respond to concerns about firm independence in the context of providing NAS to audit clients. Accordingly, the proposed requirements and application material regarding obtaining the concurrence from TCWG before providing the NAS is not be extended to other assurance engagements and the proposed communication provisions in Section 600 are not reflected in proposed consequential amendments to Section 950.

¹⁵ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

¹⁶ Section 900, *Applying the Conceptual Framework to Independence for Assurance Engagements Other Than Audit and Review Engagements*

C. Other Substantive Revisions to the Subsections in Section 600

55. The requirements and application material in subsections 601 to 610 of the current Code follow a consistent layout and structure that are amplified in the eCode and which are intended to help users navigate the Code quickly, for example, to focus on the provisions that are applicable to PIEs only.

56. As part of the NAS proposals, the structure of the provisions in the subsections has been slightly modified as follows:

- Introduction – This reinforces the need to apply the general NAS provisions.
- Application material setting out the following:
 - Description of the service.
 - Potential threats arising from the provision of the service
 - The statement about the likelihood of threat being created is revised to be more specific.
 - The provisions for all audit clients, audit clients that are not PIEs and audit clients that are PIEs are clearly distinguished.
 - For audit clients that are PIEs, there is the prohibition for certain types of service when a self-review threat is created. When the provision of that service creates another threat (e.g., an advocacy threat), application material with examples of actions that might be safeguards is provided.

57. Many of the substantive revisions to the subsections are already discussed above. The remaining substantive revisions that are being proposed to subsections 601 to 610 are as follows:

Name of Subsection	Nature of Proposed Revision
Subsection 601 – Accounting and Bookkeeping Services	<ul style="list-style-type: none"> • The exemption relating to the provision of accounting and bookkeeping services to divisions and related entities of audit clients that are PIEs in certain circumstances is withdrawn. • Clarification about permissible services that form part of the audit process necessitates in 601.2 A2.
Subsection 602 – Administrative Services	<ul style="list-style-type: none"> • No substantive revisions other than those discussed above.
Subsection 603 – Valuation Services	<ul style="list-style-type: none"> • No substantive revisions other than those discussed above.

Name of Subsection	Nature of Proposed Revision
Subsection 604 – Tax Services	<ul style="list-style-type: none"> • A new prohibition on a tax service relating to marketing, planning or advocating in favour of a tax treatment that was initially recommended, directly or indirectly, by the firm or the network firm and a significant purpose of which is tax avoidance. The service is permitted if the tax treatment has a basis in applicable tax law and regulation that is likely to prevail (see paragraph R604.4). • As part of the proposals relating to tax valuation, there is enhanced clarity to explain when firms and network are to comply with the valuation provisions in subsection 603 (see paragraph 604.17 A4).
	<ul style="list-style-type: none"> • A description of NAS that involves providing assistance in the resolution of tax disputes is proposed in 604.20 A1.
Subsection 605 – Internal Audit Services	<ul style="list-style-type: none"> • No substantive revisions other than those discussed above.
Subsection 606 – Information Technology (IT) Systems Services	<ul style="list-style-type: none"> • No substantive revisions other than those discussed above.
Subsection 607 – Litigation Support Services	<ul style="list-style-type: none"> • The general description of litigation support services is modified to include forensic or investigative services. • New provisions are proposed with respect to acting as a witness, including a requirement to prohibit a firm or a network firm from acting as an expert witness in a dispute involving an audit client that is a PIE unless the individual is appointed by a court or tribunal.
Subsection 608 – Legal Services	<ul style="list-style-type: none"> • Structural refinements are proposed to highlight and clarify the provisions that relate to providing legal advice, acting as general counsel and acting in an advocacy role.
Subsection 609 – Recruiting Services	<ul style="list-style-type: none"> • In general, the proposed revisions to this subsection are structural in nature.

Name of Subsection	Nature of Proposed Revision
Subsection 610 – Corporate Finance Services	<ul style="list-style-type: none"> • The general description of corporate financial services is modified to include: <ul style="list-style-type: none"> ○ Performing due diligence in relation to potential acquisitions and disposals. ○ Valuation of prospective acquisition.

D. Matters Relevant to Section 950

58. Consistent with the approach in the extant Code, the provisions in Section 950, which are applicable with respect to the provision of NAS to assurance clients, mirror the general provisions in Section 600. The proposals in this ED preserve this alignment and proposed consequential revisions have been made to Section 950 accordingly. The substantive aspects of those proposed consequential revisions include the following:
- New application material is added to explain the heightened expectations relating to assurance engagements for audit clients that are PIEs.
 - The requirements and application material relating to the assumption of management responsibilities are repositioned to Section 900.

E. Matters Relevant to Sections 400 and 900

59. One of the overarching themes concerning independence in providing a NAS is that the firm or the network firm shall not assume a management responsibility for an audit client. The Code provides a description of management responsibilities and includes additional provisions to help firms ensure that they do not assume a management responsibility.
60. As noted above, under the NAS proposals the provisions that prohibit firms and network firms from assuming a management responsibility for an audit client are proposed to be repositioned to Section 400 (from Section 600), giving them more prominence. The IESBA is of the view that Section 400, which sets out the general provisions relating to the application of the conceptual framework to independence for audit and review engagements is the appropriate location for those provisions. Similar conforming amendments are made to Sections 950 and 900 to maintain the existing alignment between Part 4A and Part B.
61. Except for its new location, the provisions relating to the prohibition on assuming a management responsibility are substantively unchanged from the extant provisions.

IV. Analysis of Overall Impact of the Proposed Changes

62. The IESBA believes that the proposals are critical to maintaining public trust and confidence in the audit because they are intended to address public perceptions about auditor independence. The public interest will be served by having a Code that contains robust and high-quality provisions governing the provision of NAS to audit clients that are applied consistently across jurisdictions, thereby increasing confidence in the independence of audit firms. Any enhancements to the Code as a result of this project will strengthen the IIS, thereby contributing to public trust and confidence in

the quality of the auditor’s work.

63. Given the nature and extent of the proposed revisions to the Code, the IESBA believes that some of the proposals are of a level of complexity that would entail significant changes to the policies and procedures for some stakeholders, including firms, in particular SMPs and TCWG. Such changes may result in increased costs. Whether there will be additional costs, and the nature and significance of those costs, will depend on the particular circumstances. For example, there may be no additional costs in relation to identifying and evaluating threats created by providing a NAS to an audit client. On the other hand, there may be a cost to a firm or network firm if it will need to discontinue or end certain types of NAS that will no longer be permissible as a result of the proposals (e.g. valuation services for audit clients that are PIEs and the provisions of accounting and bookkeeping services to divisions or related entities of an audit client that is a PIE if these are immaterial). Also, there may be additional time and costs associated with implementing the proposed requirement to obtain concurrence from TCWG for providing a NAS to an audit client.
64. As with any changes to the Code, firms can expect implementation costs associated with awareness and training initiatives, translation where needed, and maintenance costs in updating their internal policies and methodologies.

V. Project Timetable and Effective Date

65. The IESBA is mindful of the need for appropriate alignment to finalize the NAS and Fees pronouncements and will coordinate the timing of effective dates with the PIE project that is to be progressed in 2020. Information about IESBA’s projects and its timetable is available at: www.ethicsboard.org/consultations-projects.
66. The indicative timeline for the NAS project is set out below. This timeline takes into account a 90-day comment period for the NAS ED.

[April X, 2020]	Closing date for comments to the ED
June 2020	Highlights of significant comments to the IESBA
September 2020	<ul style="list-style-type: none">• Discussion of significant issues arising on exposure with the IESBA CAG• Full IESBA review of comments and first read of revised proposals
December 2020	IESBA approval of final pronouncement

VI. Guide for Respondents

67. The IESBA welcomes comments on all matters addressed in this ED, but especially those identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

Request for Specific Comments

Self-review Threat Prohibition and Providing Advice and Recommendations (for PIEs)

1. Do you support the proposal to establish a self-review threat prohibition in paragraph R600.14?
2. Is the proposed new application material in paragraphs 600.12 A1 to 600.13 A2 sufficient to ensure that there is consistency across firms in determining whether a self-review threat is created?
3. Is the proposed application material relating to “providing advice and recommendation” in paragraph 600.10 A1, including with respect to tax advisory and tax planning in paragraph 604.12 A2, sufficiently clear and appropriate, or is additional application material needed?

Definition of PIE

4. Having regard to the material in Section I, under the heading titled “Definition of PIE,” do you have views or suggestions as to what the IESBA should consider in undertaking a project to revise the definition of a PIE?

Materiality

5. Do you support the IESBA’s proposals relating to materiality, including the proposal to withdraw the materiality qualifier in relation to certain the NAS prohibitions for audit clients that are PIEs (see Section III, B titled “Materiality”)?
6. Do you support the proposals to withdraw the materiality qualifier for all audit clients for tax and corporate finance services when they are provided in the following circumstances?
 - Tax planning and tax advisory *when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has reasonable doubt about the appropriateness of that treatment or presentation* (see paragraph R604.13)?
 - Tax services that involve assisting in the resolution of tax disputes *when the services involve acting as an advocate* for the client before a public tribunal or court (see paragraph R604.26)?
 - Providing corporate finance services to an audit client *when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has reasonable doubt about the appropriateness of that treatment or presentation* (see paragraph R610.6)?

Communication with TCWG

7. Do you support the proposed provisions in paragraphs 600.17 A1 to 600.19 A1 for improved firm communication with TCWG, including the requirements to obtain concurrence for the provision of a NAS to an audit client in R600.19?

Other Proposed Revision to General NAS Provisions

8. Do you support the proposal to reposition the provisions relating to assuming management responsibility from Section 600 to Section 400, and from Section 950 to Section 900?
9. Do you support the proposal to elevate the application material relating to the provision of multiple NAS to the same audit client to a requirement (see paragraph R600.11)? Is the related application

material in paragraph 600.11 A1 helpful to help with the consistency in applying the new requirement?

Proposed Revisions to Subsections

10. Do you support the proposed revisions to subsections 601 to 610, including:
- (a) The clarifications to the term “routine or mechanical” in paragraph 601.4 A1?
 - (b) The withdrawal of the exemption in extant paragraph R601.7 that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if certain conditions are met.
 - (c) The proposed requirement that prohibits the provision of certain types of tax services a significant purpose of which is tax avoidance in paragraph R604.4?
 - (d) The new proposed provisions relating to acting as a witness, including acting as an expert witness in 607.7 A1 to R607.9?

Proposed Consequential Amendments

11. Do you support the proposed consequential amendments to Section 950?
12. Do you believe that there are any other areas within the Code that may warrant a conforming change as a result of the proposed revisions with respect to NAS in Sections 600?

Request for General Comments

68. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:
- *Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.
 - *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.
 - *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.
 - *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.