

### NAS Proposed Text – Revisions to Section 600, Including Subsections (Mark-up from Extant<sup>1</sup>)

This document includes notes to explain the significant the rationale for the key revisions being proposed by the Task Force.

## 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 that are relevant to firms and network firms when applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit clients. Such requirements and application material apply to the provision of non-assurance services in all circumstances. The subsections that follow set out specific requirements and application material relevant when a firm or network firm provides certain non-assurance services to audit clients and indicate the types of threats that might be created as a result.
- 600.4 Some of the subsections in this Section include requirements that expressly prohibit a firm or network firm from providing certain services to an audit client in certain circumstances because the threats created cannot be addressed by applying safeguards.
- 600.5 Requirements and application material that apply to specific types of non-assurance service are set out in subsections 601 to 610. Those subsections indicate the types of threats that might be created as a result of providing such non-assurance services.
- 600.6 600.4 A2 New business practices, the evolution of financial markets and changes in information technology, are among the developments that make it impracticalimpossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide might be provided to an audit client. As a result, the Code does not include an exhaustive list of all non-assurance services that might be provided to an audit client.

<sup>1</sup> The extant Code is the 2018 versions of the Code which is revised and restructured. It will come into effect in June 2019.

1. *Introductory Paragraphs (paras. 600.1 to 600.6)*
  - The proposed revisions to the introductory paragraphs are intended to further emphasize the need for users of the Code apply the conceptual framework to deal with threats to independence created by providing NAS to audit clients.
  - Responsive to the feedback from the Board, certain revisions that were proposed in March are reversed.

## Requirements and Application Material

### General

#### Services Prohibited by Laws or Regulations

**R600.7** In many jurisdictions, there are laws and regulations that prohibit audit firms from providing certain non-assurance services to audit clients, particularly where the audit client is a public interest entity. In such circumstances, the firm or network firm shall obtain an understanding of relevant laws and regulations and comply with them.

#### Services Not Prohibited by Laws or Regulations

**600.8 A1** Providing non-assurance services to an audit client, when such service is not prohibited by laws and regulations might still create threats to independence.

2. *Emphasizing NAS Provisions in Laws and Regulations*
  - The Task Force continues to believe that as the first step firms and network firms should obtain an understanding of the relevant laws and regulations with respect to NAS (see R600.7 to 600.8 A1).
  - The Task Force notes and agrees with some IESBA members who point out that the requirement is already included in Part 1 of the Code in (see paragraphs R100.3 to 100.3 A1). However, given the complexity of differing legislation and regulation relating to NAS at the jurisdictional level, the Task believes that there is merit for emphasis – consistent with the approach used for the inducements section of the Code (see paragraphs R340.5 to R360.6).

#### Prior to Acceptance of Non-Assurance Engagements

**R600.94** Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client, the firm shall determine whether providing such a service might create a threat to independence and if so evaluate and address such threats.

~~600.4 A1—The requirements and application material in this section assist the firm in analyzing certain types of non-assurance services...~~

~~600.4 A2—New business practices, the evolution of financial...~~

3. *Enhanced Clarity about When to Identify Threats Created by Providing NAS to an Audit Client*
  - To enhance clarity, a new subheading is added above paragraph R600.9.
  - The material in extant paragraphs 600.4 A1 and 600.4 A2 are repositioned earlier in the Section at paragraphs 600.3, 600.5 and 600.6.

### Identifying Threats

600.10 A1 The nature and level of threats created by the provision of a non-assurance service to an audit client are impacted by a number of factors including whether the audit client is a public interest entity. A description of the categories of threats that might arise when firms or network firms provide non-assurance services to audit clients is set out in paragraph 120.6 A3.

600.10 A2 In identifying threats to independence that might be created by providing a non-assurance service to an audit client, the perspective of a reasonable and informed third party is of particular importance.

600.10 A3 When providing a non-assurance service to an audit client that is a public interest entity there is an increased risk that the service might give rise to a threat to independence in appearance.

### Evaluating Threats

600.115 A1 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an audit client include:

- The nature, scope and purpose of the service.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity. ~~For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of a threat.~~
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent of the client's involvement in determining significant matters of judgment.
- Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion, and, if so:
  - The extent to which the outcome of the service will have a material effect on the financial statements.
  - 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:
  - Accounting records or financial statements on which the firm will express an opinion.
  - Internal controls over financial reporting.

600.115 A2 Subsections 601 to 610 include examples of additional factors that are relevant in evaluating the level of threats created by providing the non-assurance services set out in those subsections.

### Materiality in Relation to Financial Statements

600.125 A13 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.

#### Multiple Non-assurance Services Provided to the Same Audit Client

~~R600.135 A4~~ ~~When a firm or network firm provides~~ ~~A firm or network firm might provide~~ multiple non-assurance services to an audit client the firm or the network firm shall consider the combined effect of the threat created by providing those services as part of its overall evaluation of threats and address such threats appropriately. In these circumstances the consideration of the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

600.13 A1 When considering the threats created by providing multiple non-assurance services to an audit client, factors that are relevant include whether:

- Information obtained in the course of one non-assurance engagement impacts other contemporaneous or prior non-assurance engagements;
- The additional non-assurance service impacts the effectiveness of safeguards put in place in relation to other non-assurance engagements;
- The impact of additional non-assurance engagement(s) impacts a prior assessment of the familiarity or self-interest threats arising from the provision of non-assurance services to the audit client.

#### 4. *Identifying and Evaluating Threats Created by Providing NAS to Audit Clients*

- Paragraph R400.12 requires firms to apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to the audit engagement.
- The Task Force proposes new application material which is incremental to the underlying provisions that apply to professional accountants in public practice when identifying, evaluating and addressing threats:
  - New application for identifying threats in the context of NAS is added in paragraphs 600.10 A1 to 600.10 A3. This new material builds on the material in paragraphs R120.6 to 120.6 A4 and 300.6 A1 of the extant Code.
  - The provisions relating to evaluating threats with respect to NAS is revised as follows.
    - The bullets in 600.11 A1 are reordered to be more closely aligned with the flow of the material in the Section.
    - The second sentence of what is now the third bullet in 600.11 A1 is now expanded to develop new application material for identifying threats in 600.10 A1 to 600.10 A3.
    - Consistent with the Task Force's policy decision to use the concept of "materiality" only in the context of financial statements, the reference to the word "significant" is dropped in the last bullet in 600.11 A1.

- Responsive to a suggestion by a regulatory stakeholder, the application material relating to the combined effect of threats created by providing multiple NAS to the same audit client is now elevated to a requirement in R600.13. Also new application material is being proposed in 600.13 A1.

### Addressing Threats

~~600.6 A1~~ Subsections 601 to 610 include examples of actions, including safeguards,....

~~600.6 A2~~ Some of the subsections include requirements that expressly prohibit a firm or network firm from providing certain services to an audit client in certain circumstances because the threats created cannot be addressed by applying safeguards.

600.146 A13 Paragraph 120.10 A2 includes a description of safeguards. In relation to providing non-assurance services to audit clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level. In some situations, when a threat is created by providing a non-assurance service to an audit client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the audit engagement.

~~600.14 A2~~ Safeguards that might address threats to independence created by providing non-assurance services to audit clients vary depending on the facts and circumstances of the audit and non-assurance engagements. Actions that might be safeguards include:

- ~~Segregating the responsibilities of the individuals performing the audit and the individuals performing the service.~~
- ~~Having a review of audit work or service work conducted by an appropriate reviewer. The Code includes a description of appropriate reviewer in paragraph 300.8 A4.~~
- ~~Obtaining pre-clearance or confirmation of the outcome of the service from an appropriate authority (e.g., a tax authority).~~

~~600.6 A1-600.14 A3~~ Subsections 601 to 610 include examples of actions, including safeguards, that might address threats to independence created by providing those non-assurance services when threats are not at an acceptable level. Those examples are not exhaustive.

### Self-review Threats

~~600.15 A1~~ In the context of providing a non-assurance service to an audit client, a self-review threat to independence might be created because the firm might not appropriately evaluate the results of a previous judgment made or an activity performed by another individual within the firm, network firm or audit client, on which the audit team will rely when forming a judgment as part of an audit.

### Audit clients that are Public Interest Entities

~~R600.16~~ Firms and network firms shall not provide to an audit client that is a public interest entity a non-assurance service if the results of that service might be subject to audit procedures during the audit of the financial statements on which the firm will express an opinion.

~~600.16 A1~~ A non-assurance service that is subject to audit procedures creates a self-review threat to independence. Where the provision of a non-assurance service to an audit client that is a

public interest entity gives rise to a self-review threat to independence in appearance, such a threat cannot be eliminated and safeguards are not capable of being applied to reduce the threat to an acceptable level.

5. *Addressing Threats Created by Providing NAS to Audit Clients*

- In addition to some editorial clarifications and reordering of certain paragraphs, the proposed revisions to the material relating to addressing threats:
  - Introduces new application material that are relevant in the context of applying NAS safeguards.
  - Expands on the description of self-review threats in 120.6 A3 (b) to provide additional context for NAS engagements (see 600.15 A1).
  - Establishes a new requirement to prohibit firms and network firms from providing NAS to audit clients that are PIEs if the results of the service might be subject to audit procedures during the audit of the financial statements on which the firm will express an opinion (see R600.16 and related application material in 600.16 A1).
    - Responsive to reactions on the March 2019 draft text, reference to the words, “*if the outcome of that service might be included, directly or indirectly, in the financial statements*” is replaced with “*if the results of that service might be subject to audit procedures during the audit of the financial statements*”.
    - Responsive to reactions on the March 2019 draft text, the summary list of prohibited NAS is removed.

~~Prohibition on Assuming Management Responsibilities~~ [Moved to Section 400, see Agenda Item 6B]

~~R600.7 — A firm or a network firm shall not assume a management responsibility for an audit client.~~

~~600.7 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.—~~

~~600.7 A2 — Providing a non-assurance service to an audit client creates self-review and self-interest threats if the firm or network firm assumes a management responsibility when performing the service. Assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.—~~

~~600.7 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.~~
- ~~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.~~

~~Providing Advice and Recommendations to Assist Management in the Course of a Non-Assurance Engagement~~

~~600.17 A1 600.7 A4~~ Paragraphs R400.13 includes a requirement that prohibits firms and network firms from assuming a management responsibility when providing a service to an audit client. Provided that the firm or network firm is satisfied that client management makes all judgments and decisions that are the responsibility of management, identified in R400.15, the ~~Providing provision of~~ advice and recommendations in the course of providing a non-assurance services in order to assist the management of an audit client ~~does in discharging its responsibilities is not constitute an assuming assumption of~~ a management responsibility. (Ref: Para. R~~6400.137~~ to R~~4600.715-A3~~).

~~R600.8~~ To avoid assuming a management responsibility when providing any non-assurance service to 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 services. Such an individual, preferably within senior management, would understand:~~
  - ~~(i) The objectives, nature and results of the services; 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 services.~~

- ~~(b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose.~~
- ~~(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.~~

6. *Assuming Management Responsibility and Providing Advice and Recommendations to Assit Mangagment*

- At the March 2019 meeting, the Board generally agreed with the Task Force's recommendation to reposition the provisions relating to assuming management responsibilities to Section 400 of the Code. The new location for this material is shown in **Agenda Item 6-B**.
  - The Task Force proposed revisions to clarify the existing application relating to the provision of advice and recommendations to assist management when providing NAS to audit clients (see 600.17 A1).
  - The conditions for the provision of such advice and recommendations are now positioned in paragraph R400.15 and continue to apply.

## Auditor Communications with Those Charged With Governance regarding Non-Assurance Services

### All Audit Clients

600.18 A1 Paragraphs R300.9 to 300.9 A2, 400.40 A1 and 400.40 A2 set out requirements and application material for communicating with those charged with governance. Such requirements and application material are relevant to communications relating to the threats created by providing non-assurance services to an audit client, including information about the total fees charged during the period covered by the financial statements.

### Audit Clients that are not Public Interest Entities

600.19 A1 Communications with those charged with governance might be appropriate when significant judgments are made and conclusions reached to address threats to independence created by providing non-assurance services to audit clients that are not public interest entities.

### Audit Clients that are Public Interest Entities

**R600.20** Before agreeing to provide a non-assurance service to a public interest entity, a firm or network firm shall provide to those charged with governance information about:

- The nature of the service to be provided.
- Any threats to independence that might be created by the provision of such service.
- The actions that the firm or network firm intends to address those threats that are not at an acceptable level.

**R600.21** The firm or network firm shall not provide a non-assurance service to an audit client that is a public interest entity, unless those charged with governance agree:

- To the provision of that service, and
- With the firm's or network firm's conclusion that any threat to independence has been eliminated or safeguards are capable of being applied to reduce such threat to an acceptable level.

600.21 A1 It is important for the firm and those charged with governance to decide on the process for obtaining agreement. Such agreement may take the form of pre-approval or concurrence. This may be provided either 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. Such policies or processes may be applied to individual entities or may be applied within a group.

600.21 A2 The requirements and application material in paragraphs R300.10 and 300.10 A1 are relevant to identifying the individual or individuals within the entity who would be appropriate to obtain agreement about providing the non-assurance service.

### **7. Auditor Communications with TCWG about NAS, Including Pre-approval**

- Balancing the feedback from roundtable participants and cautions against establishing a requirement for firms to obtain pre-approval for NAS that is provided to audit clients that are PIES, the Task Force has developed new provisions to enhance auditor communication with

TCWG about NAS. Such provisions include:

- New application material to remind firms about existing provisions in the Code relating to communication with TCWG. The new material explains that those provisions are relevant to communications about threats created by providing non-assurance services to an audit client, including information about the total fees charged during the period covered by the financial statements (see 600.18 A1).
- Application material for non-PIEs relating to auditor communication with TCWG. Responsive to feedback on the March 2019 draft, the proposed text avoids the use of the word “encouragement” which some individuals, including participants at the Forum of Firm believed was unclear (see 600.19 A1).
- A new requirement for firms and network firms to agree with TCWG to the NAS that will be provided to audit clients that are PIEs (see R600.20 and R600.21). Supporting application material in 600.21 A1 to 600.21 A2 notes that:
  - Such agreement may take the form of pre-approval or concurrence.
  - The agreement may be provided either on an individual engagement basis, under a general policy, or via other means provided that the process to be used is approved by TCWG.
  - The established policies or processes may be applied to individual entities or may be applied within a group. It is envisaged that additional guidance will be needed for group audit engagements. The Task Force is of the view that this new guidance should be developed as part of a broader consideration for how the Code should be applied in a group audit context.
- It is anticipated that the Task Force will require input from the IAASB its proposals in relation to this topic to:
  - Maintain the existing alignment between the Code and ISA 260 (Revised);
  - Coordinate views with respect to required auditor communications with TCWG about independence matters in a group audit context.

### Other Considerations

#### Fees Charged for Non-Assurance Services

600.22 A1 The total fees quoted or charged for providing non-assurance services to audit clients might create threats to the firm or the network firm, in particular self-interest threats. Section 410 sets out requirements and application material that apply when providing non-assurance services to audit clients.

#### 8. *Fees Charged for Non-Assurance Services*

- The Task Force proposals include new provisions that require firms to disclose certain fee-related matters with respect to NAS. These provisions were developed in conjunction with the Fees Task Force and are set out in proposed Section 410 in **Agenda Item 3-A**.

#### ~~Providing Non-Assurance Services to an~~ Audit Client that Later Becomes a Public Interest Entity

**R600.239** 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) ~~Engagements to provide to Non~~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 as soon as practicable after, the client becomes a public interest entity; and
- (c) The firm addresses threats that are created that are not at an acceptable level.

#### *Considerations for Certain Related Entities*

**R600.2410** This section includes requirements that prohibit firms and network firms from ~~assuming management responsibilities or~~ providing certain non-assurance services to audit clients. As an exception to those requirements, a firm or 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 because the results of the services will not be subject to audit procedures; and
  - ~~(iiiiv)~~ (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

#### 9. *Enhanced Clarity about the Exemptions for Certain Related Entities*

- The Code includes two exemptions that apply to related entities. In March 2019, the Board generally agreed with the Task Force's proposal to:
  - Reposition the first exception which relates to assuming management responsibility to Section 400 so that it will be in closer proximity to the requirement that prohibit firms and network firms from assuming a management responsibility for an audit client.
  - Retain the location of the exemption that allows firms and network firms to provide certain NAS that would otherwise be prohibited provided that certain conditions are met.
    - The Task Force noted that there was a suggestion to consider withdrawing this exemption for circumstances in which an entity that has direct or indirect control over the client. After careful deliberation, the Task Force agreed that the Code should continue to include this exemption to preserve the existing alignment with the US SEC Rules.

## SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

### Introduction

~~601.1~~ ~~Providing accounting and bookkeeping services...~~ [see 601.3 A1]

601.~~12~~ In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.~~2440~~ are relevant to applying the conceptual framework when providing accounting and bookkeeping services to an audit client ~~with accounting and bookkeeping services. This subsection includes requirements that prohibit firms and network firms from providing certain accounting and bookkeeping services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.~~

### Requirements and Application Material

#### Description of Service

601.~~23~~ A1 Accounting and bookkeeping services comprise a broad range of services including:

- Preparing accounting records and financial statements.
- Recording transactions.
- Payroll services.

#### All Audit Clients

601.~~32~~ A2 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.

601.~~23~~ A3 The audit process necessitates dialogue between the firm and the management of the audit client, which might relate to ~~involve~~:

- ~~Applying~~ Accounting standards or policies and financial statement disclosure requirements, including.
  - Conversion of existing financial statements from one financial reporting framework to another, or
  - Group accounting policies.
- ~~Assessing the~~ Appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities.
- ~~Proposing~~ Adjusting journal entries arising from audit findings

- Issues relating to regulatory reporting.

These activities are considered to be a normal part of the audit process and do not usually create threats provided that as long as the client is responsible for making decisions in the preparation of accounting records and financial statements.

~~601.3 A4 Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another. Examples include:~~

- ~~• Complying with group accounting policies.~~
- ~~• Transitioning to a different financial reporting framework such as International Financial Reporting Standards.~~

~~Such services do not usually create threats provided neither the firm nor network firm assumes a management responsibility for the client.~~

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

#### All Audit Clients

~~601.4~~601.3 A1 Providing accounting and bookkeeping services to an audit client ~~might~~creates a self-review threat.

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

**R601.45** 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 created by providing such services that are not at an acceptable level.

#### *Accounting and Bookkeeping Services that Are Routine or Mechanical*

601.4 A1 Accounting and bookkeeping services that are routine or mechanical in nature, require little or no professional judgment. Some examples of these services are:

- 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.

601.~~45~~ A24 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine and 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*

**R601.56** ~~Subject to paragraph R601.7, Aa~~ firm or a network firm shall not provide to an audit client that is 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.

~~**R601.7** — As an exception to paragraph R601.6, a firm or network firm may provide accounting and bookkeeping services of a routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity if the personnel providing the services are not audit team members and:~~

- ~~(a) — The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or~~
- ~~(b) — The service relates to matters that are collectively immaterial to the financial statements of the division or related entity.~~

#### 10. Subsection 601 – Accounting and Bookkeeping Services

- In addition to the revised order of the provisions discussed in **Agenda Item 6**, the revisions to this subsection:
  - Provides clarity about the natures of services that can be provided as part of the audit process (see 601.2 A3). Extant 601.3 A1 is now subsumed into 601.2 A2.
  - Withdraws the exemption in the Code for the provision of accounting and bookkeeping NAS of a routine and mechanical nature for divisions or related entities of audit clients that are PIEs in all circumstances. Under the extant Code, this exemption exists for NAS that are collectively immaterial.

## SUBSECTION 602 – ADMINISTRATIVE SERVICES

### Introduction

~~602.1 — Providing administrative services to an audit client does not usually...~~ [see 602.3 A1]

602.12 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.~~2440~~ are relevant to applying the conceptual framework when providing administrative services.

### Application Material

#### All Audit Clients Description of Service

602.3 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services can be manual, automated and iterative, but require little to no professional judgment and are clerical in nature.

602.3 A2 Examples of administrative services include:

- Word processing or document formatting services.
- Language translation services.
- Data search and retrieval services and classification of client owned information.
- Preparing and submitting administrative or administrative or statutory forms approved by the client for client approval.
- ~~Submitting such forms as instructed by the client.~~
- Monitoring ~~statutory~~ filing dates, and informing advising an audit client of such these dates.
- Providing assistance on administrative matters such as company secretarial matters or compliance with statutory requirements.

### Potential Threats Arising from the Provision of Administrative Services

#### All Audit Clients

~~602.1~~ 602.3 A1 Providing of administrative services to an audit client does not usually create a threat.

#### 11. Subsection 602 – Administrative Services

- In addition to the revised order of the provisions discussed in **Agenda Item 6**, the revisions to this subsection modernize the description and examples of administrative services (see 602.3 A1 to 602.3 A2).

## SUBSECTION 603 – VALUATION SERVICES

### Introduction

~~603.1~~ ~~Providing valuation services to an audit client might create a~~... [see 603.3 A1]

603.12 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.2440 are relevant to applying the conceptual framework when providing valuation services to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain valuation services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.~~

### Requirements and Application Material

#### All Audit Clients Description of Service

- 603.23 A1 A valuation comprises the making of assumptions with regard to future developments, and the application of appropriate methodologies and techniques in order ~~, and the combination of both~~ to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.
- 603.23 A2 If a firm or 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 will not have a direct effect on the financial statements, the requirement and application material set out in paragraphs ~~604.14 A1 to R604.17~~ 604.9 A1 to 604.9 A5, relating to such services, applies.

## **Potential Threats Arising from the Provision of Valuation Services**

### **All Audit Clients**

~~603.1-603.3~~ **A1** Providing valuation services to an audit client might create a self-review or advocacy threat.

603.3 **A23** Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing valuation services to an audit client include:

- The use and purpose of the valuation report.
- Whether the valuation report will be made public.
- 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 and clarity of the disclosures related to the valuation in the financial statements.
- The degree of dependence on future events of a nature that might create significant volatility inherent in the amounts involved.

603.3 **A34** Examples of actions that might be safeguards to address threats arising from the provision of valuation services to an audit client 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.

### Audit Clients that are Not Public Interest Entities

**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.

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 either established by law or regulation, or are widely accepted and 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

**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 that valuation service might result in a self-review threat in the course of the audit of the financial statements on which the firm will express an opinion. ~~would have a material effect, individually or in the aggregate, on the financial~~

~~statements on which the firm will express an opinion.~~

12. *Subsection 603 – Valuation Services*

- In addition to the revised order of the provisions discussed in **Agenda Item 6**, the key change to this section is in paragraph R603.5 which relates to the prohibition of valuation services that create self-review threats.

## SUBSECTION 604 – TAX SERVICES

### Introduction

~~604.1~~ ~~Providing tax services to an audit client might create ...~~ [see 604.2 A2]

604.1~~2~~ In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.2440 are relevant to applying the conceptual framework when providing a tax service to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain tax services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.~~

### Requirements and Application Material

#### All Audit Clients

604.2~~3~~ A1 Tax services comprise a broad range of services, including activities such as:

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

While this subsection deals with each type of tax service listed above under separate headings, in practice, the activities involved in providing tax services are often inter-related.

#### Potential Threats Arising from the Provision of Tax Services

~~600.1-600.3~~ A1 Providing tax services to an audit client might create a self-review or advocacy threat.

604.3 A2 Factors that are relevant in evaluating the level of threats created by providing any tax service to an audit client include:

- The particular characteristics of the engagement.
- The level of tax expertise of the client's employees.
- The system by which the tax 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.

## **A.** Tax Return Preparation

### **Description of Service** ~~All Audit Clients~~

~~604.4 A1~~ — ~~Providing tax return preparation services does not usually create a threat.~~ [see 604.4 A1]

604.4 A1~~2~~ Tax return preparation services involve:

- 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 and 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).

~~604.4 A3~~ — ~~Tax return preparation services are usually based on historical information.~~ [see 604.4 A1]

### **Potential Threats Arising from the Provision of Tax Preparation Services**

#### All Audit Clients

~~604.4 A1 and 604.4 A3~~ ~~604.4 A1~~ — ~~Providing tax return preparation services does not usually create a threat.~~ does not create a threat where:

- 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. ~~Further, the; and~~
- Tax returns are subject to ~~whatever~~ a review or approval process involving the tax authority considers appropriate and results in a final assessment.

## **B.** Tax Calculations for the Purpose of Preparing Accounting Entries

### ~~All Audit Clients~~

~~604.5 A1~~ — ~~Preparing calculations of current and deferred tax liabilities (or assets).~~ [see 604.6 A1]

### **Description of Service**

604.5 A1 The preparation of tax calculations (current and deferred tax liabilities or assets) for the purpose of preparing accounting entries that will subsequently be audited.

### **Potential Threats Arising from the Provision of Tax Calculation Services**

#### All Audit Clients

~~604.5 A1~~ ~~604.6 A1~~ Preparing tax calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries ~~that will be subsequently audited by the firm~~ creates a self-review threat.

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

604.57 A1~~2~~ In addition to those identified ~~the factors~~ in paragraph 604.3 A2, a factor that is relevant in evaluating the level of the threat created when preparing such tax calculations in paragraph 604.5 A1 for an audit client that is not a public interest entity is whether the calculation might have a material effect on the financial statements on which the firm will

express an opinion.

#### ~~Audit Clients that are Not Public Interest Entities~~

604.75 A23 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

**R604.86** 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 for the purpose of preparing accounting entries that will form part of the financial information which forms the basis for ~~that are material to~~ the financial statements on which the firm will express an opinion.

~~604.6 A1 — The examples of actions that might be safeguards in paragraph 604.5 A3 to address self-review threats are also applicable when preparing tax calculations of current and deferred tax liabilities (or assets) to an audit client that is a public interest entity that are immaterial to the financial statements on which the firm will express an opinion.~~

### C. ~~Tax Planning and Other Tax Advisory Services~~

#### ~~All Audit Clients~~ Description of Service

~~604.7 A1 — Providing tax planning and other tax advisory services might create a~~...[see 604.10 A1]

604.97 A12 ~~Tax planning or other~~ tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

#### Potential Threats Arising from the provision of Tax Planning and Other Advisory Tax Services

##### All Audit clients

~~604.7 A1~~ 604.10 A1 Providing ~~tax planning and other~~ tax advisory services might create a self-review or advocacy threat.

604.117 A31 In addition to those identified in paragraph 604.3 A2, factors that are relevant in evaluating the level of self-review or advocacy threats created by providing ~~tax planning and other~~ tax advisory services to audit clients 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 private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.

For example, whether the advice provided as a result of the tax planning and other tax advisory services:

- Is clearly supported by a tax authority or other precedent.
- Is an established practice.

- Has a basis in tax law that is likely to prevail.
- The extent to which the outcome of the tax advice will have a material effect on the financial statements.
- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework.

604.117 A42 Examples of actions that might be safeguards to address such threats 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.

~~When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation  
Tax Advisory Services that are Prohibited~~

~~R604.128~~ A firm or a network firm shall not provide ~~tax planning and other~~ tax advisory services to an audit client when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

- ~~(a) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and~~
- ~~(b) The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion.~~

~~Audit Clients that are Public Interest Entities~~

~~R604.13~~ A firm or a network firm shall not provide tax advisory services to an audit client that is a public interest entity if the provision of such services might result in a self-review threat in the course of the audit of the financial statements on which the firm will express an opinion.

**D. Tax Services Involving Valuations**

~~604.9 A1~~ Providing tax valuation services to an audit client might create a... [see 604.15 A1]

~~All Audit Clients~~ **Description of Service**

~~604.14 A1~~ The provision of tax services involving valuations can arise in a range of circumstances and include:

- Mergers and acquisitions transactions.
- Group restructurings and
- Tax transfer pricing arrangements.

**Potential Threats Arising from the Provision of Tax Services Involving Valuations**

All Audit Clients

~~604.9~~ ~~A1~~ 604.15 A1 Providing tax valuation services to an audit client might create a self-review or advocacy threat.

604. ~~915~~ ~~A25~~ A firm or network firm might also perform a tax valuation to assist an audit client with its tax reporting obligations or for tax planning purposes where the result of the valuation will have a direct effect on the financial statements. 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. ~~169~~ A12 A firm or a network firm might perform a valuation for tax purposes only, to an audit client that is not a public interest entity where the result of the valuation will not have a direct effect on the financial statements (that is, the financial statements are only affected through accounting entries related to tax). This would not usually create threats if the effect on the financial statements is immaterial or the valuation is subject to external review by a tax authority or similar regulatory authority.

604. ~~169~~ A23 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 evaluating the level of self-review or advocacy 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.

604. ~~169~~ A34 Examples of actions that might be safeguards to address threats 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

R604.17 A firm or a network firm shall not perform a valuation for tax purposes for a public interest entity where the result of the valuation will have an indirect effect on the financial statements on which the firm will express opinion, unless:

- The underlying assumptions are either established by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation; or
- The valuation is subject to external review by a tax authority or similar regulatory authority.

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

~~604.10 A1~~ Providing assistance in the resolution of tax disputes to an audit client might create a self-review or advocacy threat. [see 600.19 A1]

### All Audit Clients **Description of Service**

~~604.18 A1~~ Providing assistance in the resolution of tax disputes arising from a tax authority's consideration of tax calculations and treatments including, for example, when the tax authorities have notified an audit 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, for example, before a public tribunal or court.

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

#### All Audit Clients

604.190 A1 Providing assistance in the resolution of tax disputes to an audit client might create a self-review or advocacy threat arising from association with the arguments being advanced.

~~604.10 A2~~ A tax dispute might reach a point when the tax authorities have notified an audit 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, for example, before a public tribunal or court.

604.240 A13 In addition those identified in ~~to~~ paragraph 604.3 A2, factors that are relevant in evaluating the level of self-review or advocacy threats created by assisting an audit client in the resolution of tax disputes 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 advice that was provided 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.

604.240 A24 Examples of actions that might be safeguards to address threats 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

**R604.21** 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 result in a self-review threat in the course of the audit of the financial statements on which the firm will express an opinion.

### **Resolution of Tax Matters Involving Acting as An Advocate**

Audit Clients that are Not Public Interest Entities

**R604.2244** 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 public 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.

604.2244 A1 Paragraph R604.2244 does not preclude a firm or network firm from having a continuing advisory role in relation to the matter that is being heard before a public 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.

604.2244 A2 What constitutes a “public tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

Audit Clients that are Public Interest Entities

**R604.23** A firm or 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 public tribunal or court in the resolution of a tax matter.

13. *Subsection 604 – Tax Services*

- The tax subsection of the Code is unique in that it includes general provisions that apply to all tax services and more specific provisions that apply to certain tax service areas. To make this clearer, the Task Force has proposed some further structural revisions.
- In addition to a several clarifications and the new ordering for the material in the subsections described in **Agenda Item 6**, the most substantive revisions are as follows:
  - General matters – The term “Tax planning” is deleted because it is covered as part of the more general term “Tax advisory services” (see 604.2 A1 and the provisions under the heading titled “C. Tax Advisory Services”).
  - Tax Preparation – The Task Force has added more specificity about the circumstances in which tax return preparation does not create threats in 604.4 A1.
  - Tax Calculation Services
    - Leveraging existing material in the Code, a description of tax calculation services is established (see 604.5 A1).
    - The prohibition for audit clients that are PIEs is more stringent with the allowance for materiality withdrawn (see R604.8).
    - Considering the new prohibition for the provision of tax calculation services, the application material with examples of safeguards referred to in 604.6 A1 of the extant Code is withdrawn.

- Tax Advisory Services
  - Leveraging existing material in the Code, a description of tax advisory services is established in 604.9 A1 and the reference to “tax planning” is dropped.
  - The prohibition for tax advisory services is clarified and the allowance for materiality is withdrawn (see R604.12).
  - A new prohibition is established for audit clients that are PIEs in for providing tax advisory services if such services might result in a self-review threat (see R604.13).
- Tax Valuation Services
  - A description of tax valuation services is established (see 604.14 A1).
  - The prohibition for audit clients that are PIEs is strengthened with the reference for materiality withdrawn (see R604.8).
- Assistance in the Resolution of Tax Disputes
  - A description is established to explain “providing assistance in the resolution of tax disputes” (see 604.18 A1).
  - A new prohibition is established for audit clients that are PIEs when providing assistance in the resolution of tax disputes if such services might result in a self-review threat (see R604.21).
  - With respect to audit clients that are PIEs, the Task Force is proposing that a new prohibition for tax services that involve assisting in the resolution of tax disputes if the services involve acting as an advocate for the audit client before a public tribunal or court in the resolution of a tax matter.

## SUBSECTION 605 – INTERNAL AUDIT SERVICES

### Introduction

~~605.1~~ ~~Providing internal audit services to an audit client might create a self review threat.~~ [see 605.4 A1]

605.12 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.2410 are relevant to applying the conceptual framework when providing an internal audit service to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain internal audit services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.~~

### Requirements and Application Material

#### ~~All Audit Clients~~ Description of Service

- 605.23 A1 Internal audit services involve assisting the audit client in the performance of its internal audit 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.
- 605.23 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 management and those charged with governance.
- R605.34** When providing an internal audit service to an audit client, the firm shall be satisfied that:
- (a) The client designates an appropriate and competent resource, preferably within senior management, 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's management or those charged with governance reviews, assesses and approves the scope, risk and frequency of the internal audit services;
  - (c) The client's management evaluates the adequacy of the internal audit services and the findings resulting from their performance;
  - (d) The client's management evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
  - (e) The client's management reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.
- 605.34 A1 Paragraph ~~R400.13600-7~~ precludes a firm or a network firm from assuming a management responsibility. Performing a significant part of the client's internal audit activities increases the possibility that firm or network firm personnel providing internal audit services will assume a management responsibility.
- 605.34 A2 Examples of internal audit services that involve an assumption of 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**

~~605.1~~**605.4 A1** Providing internal audit services to an audit client might create a self-review threat.

**605.4 A23** 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 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.

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

**605.54 A14** Factors that are relevant in evaluating the level of ~~such a~~ self-review threat **created by providing internal audit services to an audit client that is not a public interest entity** include:

- The materiality of the related financial statement 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, including in the course of an external audit.

**605.54 A25** An example of an action that might be a safeguard to address such a self-review threat 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 result in a self-review threat in the course of the audit of the financial statements on which the firm will express an opinion.~~

~~R605.6~~**65A1** ~~Examples of the services that are prohibited under paragraph R605.6 include internal audit services that~~**A firm or a network firm shall not provide internal audit services to an audit client that is a public interest entity, if the services** relate to:

- ~~(a)~~ **(a)** ~~A significant part of~~ the internal controls over financial reporting;
- ~~(b)~~ **(b)** Financial accounting systems that generate information ~~for that is, individually or in the aggregate, material to~~ the client's accounting records or financial statements on which the firm will express an opinion. ~~;~~ ~~or~~

~~(c) Amounts or disclosures that are, individually or in the aggregate, material to the financial statements on which the firm will express an opinion~~

14. *Subsection 605 – Internal Audit Services*

- In addition to the revised order of the provisions discussed in **Agenda Item 6** and the addition of subheadings to enhance readability, the key changes to this section are as follows:
  - With respect to audit clients that are PIEs, the prohibition for the provision of internal audit services is revised. Firms and network firms will be prohibited from providing internal audit services that might result in a self-review threat (see R605.6 to 605.6 A1).
  - The prohibition for audit clients that are PIEs is strengthened with the reference to the materiality/ significant withdrawn.

## SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

### Introduction

~~606.1 Providing information technology (IT) systems services to an audit client might create a self-review threat. [see 606.4 A1]~~

606.1~~2~~ In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.244~~0~~ are relevant to applying the conceptual framework when providing an information technology (IT)-IT systems service to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain IT systems services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.~~

### Requirements and Application Material

#### ~~All Audit Clients~~ Description of Service

606.2~~3~~ 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.

606.2~~3~~ A2 Paragraph R400.136~~00~~.7 precludes a firm or a network firm from assuming a management responsibility. ~~Providing~~ Ithe following IT systems services to an audit client ~~does~~ not usually create a threat as long as personnel of 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 a significant part of the accounting records or financial statements;
- (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; and

- (d) Evaluating and making recommendations with respect to an IT system designed, implemented or operated by another service provider or the client.

**R606.34** When providing IT systems services to an audit client, the firm or network firm shall be satisfied that:

- (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.

### **Potential Threats Arising from the Provision of IT Systems Services**

#### **All Audit Clients**

~~606.1606.4~~ **A1** Providing ~~information technology (IT)~~ systems services to an audit client might create a self-review threat.

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

606.54 **A1** Factors that are relevant in evaluating the level of a self-review threat created by providing IT systems services to an audit client that is not a public interest entity include:

- The nature of the service.
- The nature of IT systems and the extent to which they impact or interact with the client's accounting records or financial statements.
- The degree of reliance that will be placed on the particular IT systems as part of the audit.

606.45 **A2** An example of an action that might be a safeguard to address such a self-review threat 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 result in a self-review threat in the course of the audit of the financial statements on which the firm will express an opinion

~~R606.65~~ **A1** ~~A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the services involve~~ Examples of such services include IT services involving designing or implementing IT systems that:

- ~~(a)~~ ~~Form a significant~~ part of the internal control over financial reporting; or

- ~~(b)~~ Generate information for that is significant to the client's accounting records or financial statements on which the firm will express an opinion.

15. *Subsection 606 – IT Systems Services*

- In addition to the revised order of the provisions discussed in **Agenda Item 6** and the addition of subheadings to enhance readability, the key changes to this section are as follows:
  - With respect to audit clients that are PIEs, the prohibition for the provision of IT systems services is revised. Firms and network firms will be prohibited from providing IT systems services that might result in a self-review threat (see R606.6 to 606.6 A1).
  - The prohibition for audit clients that are PIEs is strengthened with the reference to materiality/ significant withdrawn.

## SUBSECTION 607 – LITIGATION SUPPORT SERVICES

### Introduction

~~607.1~~ ~~Providing certain litigation support services to an audit client might create a self-review or advocacy threat.~~ [see 607.3 A1]

607.~~12~~ In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.~~2440~~ are relevant to applying the conceptual framework when providing a litigation support service to an audit client.

### Requirements and Application Material

#### All Audit Clients Description of Service

607.~~23~~ A1 Litigation support services might include activities such as:

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

#### Potential Threats Arising from the Provision of Litigation Support Services

##### All Audit Clients

~~607.1607.3 A1~~ Providing ~~certain~~ litigation support services to an audit client might create a self-review or advocacy threat.

607.~~43~~ A~~12~~ Factors that are relevant in evaluating the level of self-review or advocacy threats created by providing litigation support services to an audit client include:

- The legal and regulatory environment in which the service is provided, for example, whether an expert witness is chosen and appointed by a court.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service will have a material effect on the financial statements on which the firm will express an opinion.

607.~~43~~ A~~23~~ An example of an action that might be a safeguard to address such a self-review or advocacy threat is using a professional who was not an audit team member to perform the service.

607.43 A43–If a firm or a network firm provides a litigation support service to an audit client and the service involves estimating damages or other amounts that affect 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 Public Interest Entities

R607.5 A firm or a network firm shall not provide a litigation support service to an audit client that is a public interest entity if the provision of that litigation support service might result in a self-review threat in the course of the audit of the financial statements on which the firm will express an opinion.

607.5 A1 An example of such services include advising on the potential liability arising from dispute for the purpose of quantifying any provision.

16. *Subsection 607 – Litigation Support Services*

- In addition to the revised order of the provisions discussed in **Agenda Item 6** and a few editorial refinements, the substantive change to this section is the addition of a new prohibition for litigation support services that might result in a self-review threat (see R607.5 to 607.5 A1). The new prohibition applies only to audit clients that are PIEs.

## SUBSECTION 608 – LEGAL SERVICES

### Introduction

~~608.1~~ ~~Providing legal services to an audit client might create a self-review or advocacy threat.~~  
[see 608.3 A1]

608.12 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.2440 are relevant to applying the conceptual framework when providing a legal service to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain legal services to audit clients in some circumstances because the threats cannot be addressed by applying safeguards.~~

### Requirements and Application Material

#### All Audit Clients

##### Description of Service

608.23 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 Legal services comprise a broad range of services, and might include activities such as:

- Acting in an advisory role.
- Acting as general counsel.
- Acting in an advocacy role.

## **Potential Threats Arising from Providing Legal Services**

### All Audit clients

~~608.1608.3~~ A1 Providing legal services to an audit client might create a self-review or advocacy threat.

### Audit Clients that are Public Interest Entities

**R608.4** A firm or network shall not provide legal services to an audit client that is a public interest entity if such services might give rise to self-review threat in the course of the audit in the financial statements on which the firm will express an opinion.

## **A. Acting in an Advisory Role**

### **Description of Service**

#### All Audit Clients

608.~~45~~ A1 Depending on the jurisdiction, legal advisory services 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 Acting in an Advisory Role**

### Audit Clients that are Not Public Interest Entities

608.~~64~~ A12 Factors that are relevant in evaluating the level of self-review [or advocacy threats] created by providing legal advisory services to an audit client that is not a public interest entity include:

- The materiality of the specific matter in relation to the client's financial statements.
- The complexity of the legal matter and the degree of judgment necessary to provide the service.

608.~~64~~-A23 Examples of actions that might be safeguards to address threats 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.

## **B. Acting as General Counsel**

### **Potential Threats Arising from Acting as General Counsel**

#### All Audit Clients

**R608.75** A partner or employee of the firm or the network firm shall not serve as General Counsel for legal affairs of an audit client.

608.57 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**

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

**R608.86** 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 when the amounts involved are material to the financial statements on which the firm will express an opinion.

608.68 A1 Examples of actions that might be safeguards to address a self-review threat created when acting in an advocacy role for an audit client that is not a public interest entity when the amounts involved are not material to the financial statements on which the firm will express an opinion 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*

**R608.98** 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 when the amounts involved will be included in the financial statements on which the firm will express an opinion.

#### 17. *Subsection 608 – Legal Services*

- In addition to the revised order of the provisions discussed in **Agenda Item 6** and a few editorial refinements, the substantive changes to this section are as follows:
  - With respect to audit clients that are PIEs, the addition of a new general prohibition for legal services that might result in a self-review threat (see R608.4)
  - With respect to audit clients that are PIEs, a more specific prohibition has been added for acting in an advocacy role (see R608.9).
  - The general description of legal services is now more closely aligned to the approach used in the tax subsection 604. New application material explains that legal services might include, acting in an advisory role, acting as general counsel, and acting in an advocacy role (see 608.2 A2).
  - Within paragraph 608.6 A1, the words “[or advocacy threats]” are included in brackets because the factors for evaluating threats in the bulleted list in 608.6 A1, and the examples of safeguards that follow in 608.6 A2, apply to all audit clients when an advocacy threats might be created; but are only relevant to audit clients that are non-PIEs when a self-review threat might be created.

## **SUBSECTION 609 – RECRUITING SERVICES**

### **Introduction**

~~609.1 Providing recruiting services to an audit client might create a self-interest, familiarity or intimidation threat.~~ [see 609.3 A1]

609.21 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.2440 are relevant to applying the conceptual framework when providing a recruiting service to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain types of recruiting services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.~~

## Requirements and Application Material

### ~~All Audit Clients~~ Description of Service

609.23 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.

### Potential Threats Arising from Providing Recruiting Services

#### All Audit Clients

~~609.4~~609.3 A1 Providing recruiting services to an audit client might create a self-interest, familiarity or intimidation threat.

609.43 A12 Paragraph R400.13600.7 precludes a firm or a network firm from assuming a management responsibility. Providing the following services does not usually create a threat as long as personnel of the firm or network firm does 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.

R609.54 When a firm or network firm provides recruiting services to an audit client, the firm shall be satisfied that:

- (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.

609.5 A1 Factors that are relevant in evaluating the level of self-interest, familiarity or intimidation threats created by providing recruiting services to an audit client 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.

609.5 A2 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*

**R609.6** 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.

**R609.7** 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; or
- (b) Undertaking reference checks of prospective candidates, 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.

18. *Subsection 609 – Recruiting Services*

- Other than the revised order of the provisions discussed in **Agenda Item 6** and a few editorial refinements, there were no substantive revisions to this subsection.

## **SUBSECTION 610 – CORPORATE FINANCE SERVICES**

### **Introduction**

~~610.1~~ ~~Providing corporate finance services to an audit client might create a self-review or advocacy threat.~~ [see 610.3 A3]

610.~~1~~12 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.~~10-24~~ are relevant to applying the conceptual framework when providing a corporate finance service to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain corporate finance services in some circumstances to audit clients because the threats created cannot be addressed by applying safeguards.~~

## Requirements and Application Material

### All Audit Clients Description of Service

610.23 A1 Examples of corporate finance services ~~that might create a self-review or advocacy threat~~ include:

- Assisting an audit client in developing corporate strategies.
- Identifying possible targets for the audit client to acquire.
- Advising on disposal transactions.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will express an opinion.

### Potential Threats Arising from the provision of Corporate Finance Services

#### All Audit Clients

~~610.16~~610.3 A1 Providing corporate finance services to an audit client might create a self-review or advocacy threat.

610.34 A12 Factors that are relevant in evaluating the level of such threats created by providing corporate finance services to an audit client 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.
- The extent to which:
  - The outcome of the corporate finance advice will directly affect amounts recorded in the financial statements.
  - The amounts are material to the financial statements.
- Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

610.43 A23 Examples of actions that might be safeguards to address threats 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.

#### Corporate Finance Services that are Prohibited

**R610.54** A firm or a network firm shall not provide corporate finance services to an audit client that involve promoting, dealing in, or underwriting the audit client's shares.

**R610.65** A firm or a network firm shall not provide corporate finance advice to an audit client where 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 ~~;~~

~~(a) — If the audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework, ~~;~~ and~~

~~(b) — The outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion.~~

#### Audit Clients that are Public Interest Entities

**R610.7** 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 result in a self-review threat in the course of the audit of the financial statements on which the firm will express an opinion.

#### 19. *Subsection 610 – Corporate Finance Services*

- In addition to the revised order of the provisions discussed in **Agenda Item 6** and a few editorial refinements, the substantive changes to this section are:
  - The addition of a prohibition for providing corporate finance services that create self-review threats which applies only to audit clients that are PIEs (see R610.78)
  - The prohibitions on providing corporate finance services that apply to all audit clients in paragraphs R610.5 and R610.6 are retained. The deletion of sub-para (b) of R610.6 has the effect of strengthening the provision for non-PIEs as well as PIEs.