

**NAS Proposed Texts – Revisions to Section 600 and
Conforming Amendments to Section 400
(Clean Version)**

Note: This document includes a clean version of the Task Force's proposed revisions to Section 600 and the related conforming amendments to Section 400.

Please refer to **Agenda Items 6-A and 6-B** for the mark-up from the extant Code¹ and the Task Force's notes to explain the rationale for the significant revisions being proposed.

A. Proposed Revisions to Section 600

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

Introduction

- 600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.
- 600.3 This section sets out requirements and application material 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.
- 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 New business practices, the evolution of financial markets and changes in information technology, are among the developments that make it impractical to draw up an all-inclusive list of non-assurance services that firms and network firms might provide 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.

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

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.

Prior to Acceptance of Non-Assurance Engagements

R600.9 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.

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

600.11 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.
- 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 part of the client's:
 - Accounting records or financial statements on which the firm will express an opinion.
 - Internal controls over financial reporting.

600.11 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

600.12 A1 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

R600.13 When a firm or network firm provides 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.

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.

Addressing Threats

600.14 A1 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).

600.14 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.

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

600.17 A1 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 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 not constitute an assumption of a management responsibility. (Ref: Para. R400.13 to R400.15).

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.

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.

Audit Client that Later Becomes a Public Interest Entity

R600.23 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-assurance services 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

R600.24 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit clients. As an exception to those requirements, a firm or network firm may 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 services do not create a self-review threat because the results of the services will not be subject to audit procedures; and
- (iii) The firm addresses other threats created by providing such services that are not at an acceptable level.

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.24 are relevant to applying the conceptual framework when providing accounting and bookkeeping services to an audit client.

Requirements and Application Material

Description of Service

601.2 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 601.2 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.

601.2 A3 The audit process necessitates dialogue between the firm and the management of the audit client, which might relate to:

- 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.
- Appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities.
- 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 the client is responsible for making decisions in the preparation of accounting records and financial statements.

Potential Threats Arising from the Provision of Accounting and Bookkeeping Services

All Audit Clients

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

Audit Clients that are Not Public Interest Entities

R601.4 A firm or a network firm shall not provide to an audit client that is not a public interest entity accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements, unless:

- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any threats that are created by providing such services that are not at an acceptable level.

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.

601.4 A2 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

R601.5 A 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.

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.24 are relevant to applying the conceptual framework when providing administrative services.

Application Material

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.
- Language translation services.
- Data search and retrieval services and classification of client owned information.
- Preparing and submitting administrative or statutory forms approved by the client.

- Monitoring filing dates, and informing audit client of such 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

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

SUBSECTION 603 – VALUATION SERVICES

Introduction

603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.24 are relevant to applying the conceptual framework when providing valuation services to an audit client.

Requirements and Application Material

Description of Service 603.2 A1 A valuation comprises the making of assumptions with regard to future developments, and the application of appropriate methodologies and techniques in order to compute a certain value, or range of values, for an asset, a liability or for a business as a whole.

603.2 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, relating to such services, applies.

Potential Threats Arising from the Provision of Valuation Services

All Audit Clients

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

603.3 A2 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 A3 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.

SUBSECTION 604 – TAX SERVICES

Introduction

604.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.24 are relevant to applying the conceptual framework when providing a tax service to an audit client.

Requirements and Application Material

All Audit Clients

604.2 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 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

600.3 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

604.4 A1 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).

Potential Threats Arising from the Provision of Tax Preparation Services

All Audit Clients

604.4 A1 Providing tax return preparation services 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; and
- Tax returns are subject to a review or approval process involving the tax authority and results in a final assessment.

B. Tax Calculations for the Purpose of Preparing Accounting Entries

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

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

Audit Clients that are Not Public Interest Entities

604.7 A1 In addition to those identified in paragraph 604.3 A2, a factor that is relevant in evaluating the level of the threat created when preparing 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.

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

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

Audit Clients that are Public Interest Entities

R604.8 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 the financial statements on which the firm will express an opinion.

C. Tax Advisory Services

Description of Service

604.9 A1 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

604.10 A1 Providing tax advisory services might create a self-review or advocacy threat.

604.11 A1 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 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.

604.11 A2 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.

Tax Advisory Services that are Prohibited

R604.12 A firm or a network firm shall not provide 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 the audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

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

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

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

604.15A2 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

604.16 A1 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.

604.16 A2 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the financial statements, in addition to those identified in paragraph 604.3 A2, the following factors are relevant in 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.

604.16 A3 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:
- (a) 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
 - (b) The valuation is subject to external review by a tax authority or similar regulatory authority.

E. Assistance in the Resolution of Tax Disputes

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

- 604.19 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.
- 604.20 A1 In addition those identified in 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.
- 604.20 A2 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

R604.22 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.

604.22 A1 Paragraph R604.22 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.

604.22 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.

SUBSECTION 605 – INTERNAL AUDIT SERVICES

Introduction

605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.24 are relevant to applying the conceptual framework when providing an internal audit service to an audit client.

Requirements and Application Material

Description of Service

605.2 A1 Internal audit services 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.
- 605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of management and those charged with governance.
- R605.3** 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.
- 605.3 A1 Paragraph R400.13 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.
- 605.3 A2 Examples of internal audit services that involve an assumption of management responsibilities include:
- Setting internal audit policies or the strategic direction of internal audit activities.
 - Directing and taking responsibility for the actions of the entity's internal audit employees.
 - Deciding which recommendations resulting from internal audit activities to implement.
 - Reporting the results of the internal audit activities to those charged with governance on behalf of management.
 - Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.

- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

Potential Threats Arising from the provision of Internal Audit Services

All Audit Clients

- 605.4 A1 Providing internal audit services to an audit client might create a self-review threat.
- 605.4 A2 When a firm uses the work of an internal audit function in an audit engagement, ISAs require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or 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

- 605.5 A1 Factors that are relevant in evaluating the level of 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.
- 605.5 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

- 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.
- 605.6A1 Examples of the services that are prohibited under paragraph R605.6 include internal audit services that relate to:
- The internal controls over financial reporting;
 - Financial accounting systems that generate information for the client's accounting records or financial statements on which the firm will express an opinion.

SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.24 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to an audit client.

Requirements and Application Material

Description of Service

606.2 A1 Services related to IT systems include the design or implementation of hardware or software systems. The IT systems might:

- (a) Aggregate source data;
- (b) Form part of the internal control over financial reporting; or
- (c) Generate information that affects the accounting records or financial statements, including related disclosures.

However, the IT systems might also involve matters that are unrelated to the audit client's accounting records or the internal control over financial reporting or financial statements.

606.2 A2 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. The following IT systems services to an audit client do 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.

R606.3 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

606.4 A1 Providing IT systems services to an audit client might create a self-review threat.

Audit Clients that are Not Public Interest Entities

606.5 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.

606.5 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

606.6 A1 Examples of such services include IT services involving designing or implementing IT systems that:

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

SUBSECTION 607 – LITIGATION SUPPORT SERVICES

Introduction

607.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.24 are relevant to applying the conceptual framework when providing a litigation support service to an audit client.

Requirements and Application Material

Description of Service

607.2 A1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- 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

- 607.3 A1 Providing litigation support services to an audit client might create a self-review or advocacy threat.
- 607.4 A1 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.
- 607.4 A2 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.
- 607.4 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.

SUBSECTION 608 – LEGAL SERVICES

Introduction

- 608.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.24 are relevant to applying the conceptual framework when providing a legal service to an audit client.

Requirements and Application Material

All Audit Clients

Description of Service

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

608.2 A2 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

608.3 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

608.5 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

608.6 A1 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.

608.6 A2 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

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

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

C. Acting in an Advocacy Role

Potential Threats Arising from Acting in an Advocacy Role

Audit Clients that are Not Public Interest Entities

R608.8 A firm or a network firm shall not act in an advocacy role for an audit client that is a not public interest entity in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion.

608.8 A1 Examples of actions that might be safeguards to address a self-review 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 re-view the audit work or the service performed.

Audit Clients that are Public Interest Entities

R608.9 A firm or a network firm shall not act in an advocacy role for an audit client that is a public interest entity in resolving a dispute or litigation when the amounts involved will be included in the financial statements on which the firm will express an opinion.

SUBSECTION 609 – RECRUITING SERVICES

Introduction

609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.24 are relevant to applying the conceptual framework when providing a recruiting service to an audit client.

Requirements and Application Material

Description of Service

609.2 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
 - Reviewing the professional qualifications or competence of applicants and

determining their suitability for the position.

- Undertaking reference checks of prospective candidates.
- Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Potential Threats Arising from Providing Recruiting Services

All Audit Clients

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

609.4 A1 Paragraph R400.13.7 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.

R609.5 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.

SUBSECTION 610 – CORPORATE FINANCE SERVICES

Introduction

610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.24 are relevant to applying the conceptual framework when providing a corporate finance service to an audit client.

Requirements and Application Material

Description of Service

610.2 A1 Examples of corporate finance services include:

- Assisting an audit client in developing corporate strategies.
- Identifying possible targets for the audit client to acquire.
- Advising on 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

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

610.4A1 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.

610.4 A2 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

R610.5 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.

R610.6 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 the audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework. 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.

B. Proposed Conforming Amendments to Section 400

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

(...)

General

R400.11 A firm performing an audit engagement shall be independent.

R400.12 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

Prohibition on Assuming Management Responsibilities

R400.13 A firm or a network firm shall not assume a management responsibility for an audit client.

400.13 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial,

technological, physical and intangible resources.

- 400.13 A2 Providing a professional 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.
- 400.13 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:
- Setting policies and strategic direction.
 - Hiring or dismissing employees.
 - Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
 - Authorizing transactions.
 - Controlling or managing bank accounts or investments.
 - Deciding which recommendations of the firm or network firm or other third parties to implement.
 - Reporting to those charged with governance on behalf of management.
 - 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

400.14 A1 Provided that the firm or network firm is satisfied that client management makes all judgments and decisions that are the responsibility of management, firms and network firms might the provisions of advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. For example, a firm or network firm might provide advice and recommendations when providing a non-assurance service to an audit client. In such circumstances, the requirements in Section 600 apply.

R400.15 To be satisfied that client management makes all judgments and decisions that are the responsibility of management, when providing advice and recommendation to the management, the firm or network form shall ensure that the audit 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. While, the individual is not required to possess the expertise to perform or re-perform the service, the individual, preferably within senior management, would need to understand:
 - (i)** The objectives, nature and results of the services; and
 - (ii)** The respective client and firm or network firm responsibilities.
- (b)** Provides oversight of the services and evaluates the adequacy of the results of the

service performed for the client's purpose.

- (c) Accepts full ownership and responsibility for outcome of the service and the actions, if any, to be taken arising from the results of the services.

Consideration for Certain Related Entities

R400.16 This section includes requirements that prohibit firms and network firms from assuming management responsibilities for audit clients. a firm or network firm may assume management responsibilities when providing professional services 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; and
 - (iii) The firm addresses other threats created by providing such services that are not at an acceptable level.

[Paragraphs 400.17 to 400.19 are intentionally left blank]

Related Entities

R400.20 As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 400.21 to 400.29 are intentionally left blank]

Period During which Independence is Required

All Audit Clients

R400.30 Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the financial statements.

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

R400.31 If an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or
- (b) Previous services provided to the audit client by the firm or a network firm.

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

400.31 A2 Examples of actions that might be safeguards to address such threats include:

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

Audit Clients that are Public Interest Entities

R400.32 The firm or network firm shall not accept appointment as auditor of a public interest entity to which it has provided a non-assurance service that would not be permitted during an engagement period unless the provision of such service has ceased and:

- (a) The result of the service has been subject to audit by a firm outside of the network, or
- (b) Another firm outside of the network reperforms the service to the extent necessary to enable that firm to take responsibility of the service.

[Paragraphs 400.33 to 400.39 are intentionally left blank]

(...)