

**Meeting:** IESBA  
**Meeting Location:** New York  
**Meeting Date:** March 11-13, 2019

# Agenda Item 7

## Non-Assurance Services (NAS)

### Objective

1. To consider and provide input on the Task Force's proposed revisions to the NAS provisions in the Code which have been developed to address the issues in the [NAS project proposal](#).<sup>1</sup>

During the meeting, the Task Force Chair will make a presentation setting out the Task Force's key policy decisions/proposals and the reasons for them. The Board will be asked for its views on the Task Force's approach and, in particular, whether it supports those policy decisions and proposals.

To demonstrate the implications of its proposals, the Task Force has developed revisions to the Code. These are provided in **Agenda Item 7-A**.

*The discussion at the March Board meeting will focus on the key policy issues – not on the drafting of the revisions to Code. However, the Task Force welcomes drafting suggestions and comments on the proposed texts via email. Please email [SzilviaSramko@ethicsboard.org](mailto:SzilviaSramko@ethicsboard.org) and [dianejules@ethicsboard.org](mailto:dianejules@ethicsboard.org).*

### Task Force's Approach

2. The Task Force<sup>2</sup> has developed proposed revisions to the provisions in the Code that address the circumstances in which firms and network firms may or may not provide non-assurance services to audit clients (i.e., Section 600).<sup>3</sup>
3. The Appendix to this paper includes an overview of the Task Force's proposals.

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<sup>1</sup> The IESBA approved the NAS project proposal in September 2018. This project proposal was informed by [feedback](#) on a Briefing Paper, [Non-Assurance Services – Exploring Issues to Determine a Way Forward](#) that was discussed at the [four global roundtables](#) and advice from its Consultative Advisory Group (CAG). The [IESBA Project Timetable](#) anticipates a September 2019 approval date for the NAS Exposure Draft.

<sup>2</sup> Task Force Members comprise:

- Richard Fleck, Chair and IESBA Deputy Chair
- David Clark, IESBA Technical Advisor
- Kim Gibson, IESBA Member
- Gary Hannaford, former IESBA Member (through December 2018)
- Jens Poll, IESBA Member

<sup>3</sup> Part 4A – International for Audit and Review Engagements, Section 600, *Provision of Non-Assurance Services to an Audit Client*

## Matters for IESBA Consideration

### *Significant Revisions, Including New Requirements*

4. During the meeting, the Task Force will seek the Board's views on and support for the following three key policy proposals:
- (a) That the [revised and restructured Code](#) should include requirements that prohibit firms and network firms from providing NAS to audit clients that are public interest entities (PIEs) if the outcome of that service might be included directly or indirectly in the financial statements, and the service creates, or might create, a self-review threat.
    - These proposals are demonstrated in paragraphs R600.11, 600.10 A1 to 600.10 A4 and 600.11 A1 to 600.11 A2 of **Agenda Item 7-A**.
    - This approach will result in the withdrawal of the provisions that currently allow firms and network firms the flexibility to determine whether to provide NAS that creates or might create self-review threats to audit clients that are PIEs in circumstances when the firm determines that:
      - The outcome of the service would not be material to the financial statements on which the firm will express an opinion; and
      - The threat to independence that is created by providing the NAS is either eliminated, or reduced to an acceptable level, by applying safeguards.
  - (b) That the distinction in the NAS provisions in the Code for audit clients that are PIEs and audit clients that are not PIEs should be maintained.
    - Most of the Task Force's proposals are intended to strengthen the NAS provisions that apply to audits of PIEs.
    - The Task Force believes providing a NAS service to an audit clients that are PIEs might be perceived to result in a higher level of a threat to independence in appearance because PIEs have a large number and wide range of stakeholders and because of the nature of the business.
  - (c) That the Code should include explicit provisions regarding auditor communication with those charged with governance (TCWG) about NAS matters, including a requirement for firms and network firms of audit clients that are PIEs to obtain pre-approval from TCWG for the provision of NAS to audit clients.

### *Clarifications and Structural Matters*

5. The exercise of drafting proposed revisions to Section 600 has highlighted the following matters on which the Board's advice is also sought:
- (a) Should Section 600 be drafted so that it sets out how the conceptual framework should be applied when considering the implications of accepting a NAS engagement?
    - The revisions in **Agenda Item 7-A** are aligned to the conceptual framework set out in Section 120<sup>4</sup> and generally conform to the drafting convention for the Code.<sup>5</sup> However,

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<sup>4</sup> Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, *The Conceptual Framework*

<sup>5</sup> See the Guide to the Code, paragraphs 6 to 17 that explain how the Code is structured and how to use the Code.

in some instances, the Task Force's proposals repeat certain provisions that are included in the conceptual framework and the general sections of the Code for emphasis.

- The Task Force is of the view that its proposed approach will help drive consistency in the way that firms apply the conceptual framework with respect to NAS.
- (b) Should the Code include an illustrative summary list of the services that are prohibited as a result of the new prohibition relating to self-review threats (see paragraph 600.11 A2)?
- The summary list reflects most of the NAS prohibitions for audit clients that are PIEs that are set out in subsections 601 to 610 of the current Code.
  - The Task Force debated the merits and drawbacks of having such a summary list as part of the general provisions in Section 600 of the Code. The viewpoints varied and during the Board meeting the Task Force will seek the Board's views about whether to:
    - Include the proposed summary list of NAS prohibitions in paragraph 600.11 A2, thereby emphasizing the material in the subsections; or
    - Retain the current approach, under which the NAS prohibitions appear only in the relevant subsections.
- (c) Should the Code include general examples of actions that might be safeguards with respect to NAS such as those in paragraph 600.15 A2?
6. The Task Force will seek the Board's views on its proposal to move the existing provisions relating to the assumption of management responsibilities to Section 400<sup>6</sup> of the Code. The Task Force believes that those provisions are relevant to applying the conceptual framework to independence in all circumstances, and should form part of the overarching concepts in the International Independence Standards (see R400.13 to R400.14).
- The Task Force believes that this proposal is responsive to comments from regulators and the Public Interest Oversight Board who have challenged the robustness and clarity of the provisions in the Code relating to assuming management responsibilities, and the related exemption that exists for certain related entities.
  - Following this proposal, Section 600 would retain clarified provisions relating to the provision of advice and recommendations to assist management in discharging their responsibilities when providing a service to audit client (see paragraph 600.16 A1 to R600.18).

#### *Coordination with the Fees Task Force*

7. The Task Force Chair and Staff have liaised with the Chair and Staff of the Fees Task Force, as appropriate, in progressing its work. For example, the proposed new provisions to establish a fee-threshold in the Code incorporate input from the Fees Task Force and is included in paragraph R410.21<sup>7</sup> of **Agenda Item 6-B**.

#### **Activities since Last IESBA Discussion**

8. The Task Force met once in person and once via teleconferences to develop its agenda materials.

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<sup>6</sup> Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

<sup>7</sup> Part 4A, Section 410, *Fees*

9. At its meeting on March 4, 2019, the IESBA CAG will consider and provide input on the Task Force's proposals. The Task Force Chair will brief the IESBA on the key outcomes of the CAG discussion.

**Next Steps**

10. The Task Force is planning to seek input on its proposals at The Forum of Firms (FoF) in April 2019 and the IESBA National Standard Setters Liaison Group (NSS) in May 2019. The Task Force is planning to consider the input from the March 2019 CAG and Board meetings and the subsequent FoF and NSS meetings at its May 2019 Task Force meeting. The Task Force will present revised proposals to the Board in June 2019.

**Materials Presented**

*For Discussion*

Agenda Item 7-A      Proposed NAS Revisions to the Code and Related Notes (Mark-up)

*For Reference*

Agenda Item 7-B      Proposed NAS Revisions to the Code (Clean version of text only)

### Highlights of the Task Force's Proposals<sup>8</sup>

#### *For PIEs Only*

- New prohibition for NAS if outcome might be included directly or indirectly in financial statements and might create self-review threats (para. R600.11)
- New requirement for firms to obtain pre-approval for NAS from TCWG (para. R600.21)
- New provisions to re-evaluate threats to independence when the ratio of NAS to audit fees reach a particular threshold (see R410.21 of **Agenda Item 6-A**).
- Withdrawal of exception relating to accounting and bookkeeping services which was included in paragraph R601.7 of the current Code.
- Withdrawal of materiality as a “qualifier” in prohibitions for specific types of services (e.g., see para. R603.5).
- Clarity about the periods for which independence is required (paras. 600.25 A1 to 600.26 A1)

#### *For PIEs and Non-PIEs*

- New provisions to enhance and encourage auditor communication with TCWG about NAS (paras. 600.19 A1 to 600.20 A1).
- Repositioned provisions relating to management responsibilities to enhance clarity (paras. R400.13 to R400.15 and R600.27).
- Further clarifications for applying the conceptual framework for NAS, including:
  - New guidance for identifying threats, including a new description of self-review threat in the context of NAS (paras. 600.9 A1 to 600.10 A4).
  - Explicit requirements for evaluating and addressing NAS threats to independence (paras. R600.12 and R600.14 to R600.15).
- Strengthen provisions for situations in which firm provides multiple NAS to the same audit client. Application material is now elevated to a requirement and new application material for considering the combined effects of threats is added (paras. R600.13 to 600.13 A1).
- New application material with general examples of actions that might be safeguards with respect to NAS (para 600.15 A2).

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<sup>8</sup> Except where otherwise noted, the paragraph references are to the proposed text in **Agenda Item 7-B**.