

Non-Assurance Services Proposed Text and Related Notes (Mark-up)

This document illustrates how the Task Force's key policy decisions/ proposals will impact the Code. It includes:

- Suggested revisions to general provisions in Section 600 and subsections 601 to 603 of the Code in Section A of this document.
- Consequential amendments to Section 400 of the Code in Section B of this document.

For reference, a clean version of the proposed text is included in **Agenda Item 7-B**. Please drafting suggestions or comments to SzilviaSramko@ethicsboard.org and dianejules@ethicsboard.org.

Section A – Proposed Revisions to Section 600 (General Provisions and Subsections 601 to 603)

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. ~~The P provision ding of such~~ 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. Those requirements and application material are general in nature and apply to non-assurance provisions in all circumstances.
- 600.4 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 audit clients. As a result the Code does not include an exhaustive list of all non-assurance services that might be provided to an audit client. The sSubsections of this section that follow set out include specific requirements and application material that are relevant when a firm or network firm provides

~~those certain~~ non-assurance services to audit clients and indicate the types of threats that might be created as a result.

600.5 This section ~~Some of the subsections~~ includes 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. Other requirements that apply to specific types of non-assurance services are set out in subsections 601 to 610.

600.4-6A1 For non-assurance services that are not explicitly prohibited, the requirements and application material in this section assist the firms and network firms to in analyzing-determine whether to provide certain-a particular types of non-assurance services to their audit clients and explain how to identify, evaluate and address the-related threats that might be created if a firm or network firm provides non-assurance services to an audit client.

1. Note re paras 600.1 to 600.6

Clarifications to Emphasize the need to Apply the Conceptual Framework

- The first sentence of 600.4 has been repositioned with some tweaks from paragraph 600.4 A2 of the current Code.
- The proposed revisions to the introductory paragraphs are intended to assist users of the Code to better understand how to apply the conceptual framework when considering threats to independence created by providing NAS to audit clients.

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. Note re paras 600.7 and 600.8 A1

Emphasizing NAS that are Prohibited in Laws and Regulations

- Before considering the appropriateness of an engagement to provide NAS, the Task Force believes that firms and network firms should consider the relevant laws and regulations applicable to the provision of NAS to audit clients (see R600.7 to 600.8 A1).
- Although this expectation is covered by paragraphs R100.3 to 100.3 A1, the Task Force believes it appropriate to reinforce that expectation in Section 600 given the complexity of differing legislation and regulation relating to the provision of NAS around the world.

Identifying Threats

R600.49 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 the provision providing of such a service might create a threat to independence.

~~600.4 A2~~ ~~New business practices, the evolution of financial markets and changes in information technology, are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that 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.~~ [See 600.4 above]

600.9 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 described in paragraph 120.6 A3.

R600.9 A2 The provision of a non-assurance service to an audit client that is a public interest entity gives rise to an increased risk of a threat to independence in appearance. For this reason, the perspective of a reasonable and informed third party is of particular relevance when identifying threats to independence that might be created by providing a non-assurance service to an audit client that is a public interest entity.

Self-review Threats

600.10 A3 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 will not appropriately evaluate the results of a previous judgement 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 the audit.

600.10 A4 Due to the perceived level of a threat to independence in the context of providing a non-assurance service to an audit client that is a public interest entity, a self-review threat to independence cannot be eliminated and safeguards are not capable of being applied to reduce them to an acceptable level. This is because self-review threats conflict with users' expectations of financial statements of public interest entities that have been subject to an independent audit.

Audit clients that are public interest entities

R600.11 Firms and network firms shall not provide to an audit client that is a public interest entity a non-assurance service if the outcome of that service might be included, directly or indirectly, in the financial statements on which the firm will express an opinion and which might, in such circumstances, give rise to a self-review threat to independence.

600.11 A1 When considering whether a non-assurance engagement is prohibited, an audit firm assesses whether:

- (a) The outcome of the service might be included in the financial statements on which it will express an opinion. For this purpose, an outcome of the service is regarded as being included in the financial statements if it is included or referred to expressly or if it forms

part of the financial information from which the information in the financial statements is derived or on which such information is based; and

(b) There is a possibility that consideration of such outcome in the course of the audit will give rise to a self-review threat to independence.

600.11 A2 In the case of an audit client that is a public interest entity, the following are examples of non-assurance services that are likely to create self-review threats that cannot be eliminated or addressed by applying safeguards: [The bulleted list below is a summary of the services that might create self-review threat and are in most circumstances prohibited for audits of PIEs under the current Code.]

- 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.
- Valuation services if the service has a direct effect on the financial statement on which the firm will express an opinion
- Tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries.
- Tax advisory services when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements.
- 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.
- Internal audit services if the services relate to:
 - Internal controls over financial reporting, or
 - Financial accounting systems that generate information to the client's accounting records or financial statements on which the firm will express an opinion.
- IT systems services if the services involve designing or implementing IT systems that:
 - Form part of the internal control over financial reporting; or
 - Generate information to the client's accounting records or financial statements on which the firm will express an opinion.
- Serving as a General Counsel for legal affairs.
- Acting in an advocacy role in resolving a dispute or litigation when the amounts involved have a direct effect on the financial statements on which the firm will express an opinion.
- Acting as a negotiator on the client's behalf.
- Corporate finance services that involve promoting, dealing in, or underwriting the audit client's shares.
- Corporate finance advice 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.

3. **Note re paras 600.9 A1 to 600.11 A1**

Identifying Threats, Explanation of Self-review Threats in the Context of NAS, For Audits of PIEs – Prohibition for NAS that Create Self-review Threats

The Task Force believes that the proposed new provisions will:

- (a) Assist firms and network firms identify threats created by providing NAS to audit clients that are PIEs by:
 - Signaling the need to consider the nature and level of the threats that might be created (see 600.9 A1)
 - Emphasizing the importance of the perspective of a reasonable and informed third party (see 600.9 A2).
- (b) Expand on the existing description of self-review threats in the Code and explain how a self-review threat to independence is created in the context of NAS engagements (see 600.10 A3).
- (c) Explain that in the context of providing a NAS to an audit client that is a PIE, a self-review threat to independence cannot be eliminated and safeguards are not capable of being applied to reduce them to an acceptable level (see 600.10 A4).
- (d) Establish a requirement that prohibits firms and network firms from providing NAS to audit clients that are PIEs if: (see R600.11 to 600.11 A1)
 - The outcome of that service might be included, directly or indirectly, in the financial statements; **and**
 - Providing that service might, in such circumstances, give rise to a self-review threat to independence.

Evaluating ~~t~~Threats

R600.12 When a firm identifies a threat to independence arising from the provision of non-assurance services, the firm shall evaluate whether such a threat is at an acceptable level.

600.12~~5~~ 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 degree of reliance that will be placed on the outcome of the service as part of the audit.
- The legal and regulatory environment in which the service is provided.
- 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.
- 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.
- 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.~~ [see 600.87 A1 above]
- 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: [bullet is repositioned]
 - 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.

~~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. In subsections 601 to 610 references to "materiality" and "material" are in relation to an audit client's financial statements. [Formerly 600.5 A3 of the current Code, now repositioned to enhance readability]

600.125 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.

Multiple Non-assurance Services Provided to the Same Audit Client

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

600.13 A1 When considering the combined effect of 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. **Note re paras R600.12 to 600.13 A1**

Evaluating Threats, including in Situations when Multiple NAS are Provided

As highlighted in **Agenda Item 7**, the Task Force has developed proposed revisions to ensure a comprehensive and consistent approach to how firms apply the conceptual framework in the context of NAS. The proposed revisions:

- (a) Repeat the overarching requirement for the firm to evaluate threats to independence arising from the provision of NAS. The application material relating to materiality is repositioned to improve clarity of the Code (see R600.12 to 600.12 A1).
- (b) Expand on the existing material in the Code to better explain that firms and network firms are to consider the combined effect of providing multiple NAS to the same audit client when evaluating threats. This is achieved by:
 - (i) Elevating the existing application material for evaluating threats to a requirement (see R600.13). This was done in response to previous suggestions from IFIAR and IOSCO in the context of the recently completed Safeguards project.
 - (ii) Establishing new application material to introduce factors that might be relevant when considering the combined effects of threats (see 600.13 A1).

Addressing Threats

~~R600.146 A2~~ R600.146 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. If a firm or network firm determines that a threat to compliance with the fundamental principles or to independence is created by providing a non-assurance service to an audit client that is not at an acceptable level, it shall address such threat by either applying safeguards when available and capable of being applied to reduce the threat to an acceptable level, or by declining or ending either the non-assurance service or the audit engagement. [Elevated to a requirement]~~

~~R600.15~~ R600.15 ~~When determining whether safeguards reduce threats arising from the provision of non-assurance services to an acceptable level, a firm or network firm shall use the reasonable and informed third party test described in paragraph 120.5 A4. [New requirement]~~

~~600.156 A13~~ 600.156 A13 ~~Paragraph 120.10 A2 includes a description of safeguards. In relation to When 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.~~

~~600.15 A2~~ 600.15 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. In general, actions that might be safeguards involve:~~

- 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).

600.156 A43 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.

5. Note re paras R600.14 to 600.15 A3

Addressing Threats, including General Examples of Safeguards

As highlighted in **Agenda Item 7**, the Task Force has developed proposed revisions to ensure a comprehensive and consistent approach to how firms apply the conceptual framework in the context of NAS. The proposed revisions:

- (a) Elevates the existing application material relating to addressing threats to a requirement (see R600.14).
- (b) Introduces a new requirement for firms to use the RITP test when determining whether safeguards reduce threats arising from the provision of non-assurance services to an acceptable level (see R600.15).
- (c) Includes new application material with general examples of actions that might be safeguards (see 600.15 A2).

~~Prohibition on Assuming Management Responsibilities~~ [Material is repositioned to R400.13 to R400.14]

~~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 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~~

600.167 A21 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. 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.

R600.17-A4 Provided that the firm or network firm is satisfied that client management makes all significant judgments and decisions, the provision of ~~Providing~~ advice and recommendations in the course of providing a non-assurance service in order to assist the management of an audit client does not constitute an assumption of management responsibility in discharging its responsibilities is not assuming a management responsibility. (Ref: Para. R4600.137 to 6400.137 A32).

R600.18 ~~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~~To be satisfied that client management makes all significant judgments and decisions, 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 ~~Such an~~ 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.

~~However, the individual is not required to possess the expertise to perform or re-perform the services.~~ [See R600.17 above]

- (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.

6. **Note re paras 600.16 to R600.18**

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

As noted in **Agenda Item 7**, the Task Force is proposing that:

- (a) The provisions relating to assuming management responsibilities should be moved to Section 400 of the Code (see Section B of this paper, R400.13 to 400.13 A2); and
- (b) The provisions relating to providing advice and recommendations to assist management in discharging their responsibilities when providing NAS to an audit client should be clarified (see 600.16 A1 to R600.18).

In developing this proposal, the Task Force considered comments from regulators and the PIOB who have challenged the robustness and clarity of the provisions relating to assuming management responsibilities and determined that:

- The provisions relating to assuming management responsibilities are relevant whenever applying the conceptual framework to independence, and should form part of the overarching concepts in the International Independence Standards.
- Changing the placement for the provisions relating to assuming management responsibilities will help make it clearer and easier to understand.
- The proposed revisions responds to regulatory stakeholders and the PIOB who questioned the appropriateness of having the words "To avoid assuming a management responsibility when providing any non-assurance service to an audit client, the firm shall ..." in the Code. There was a view that the underlined words should be avoided.

Auditor Communications with Those Charged With Governance about Non-Assurance Services

All Audit Clients

600.19 A1 Paragraphs R300.9 to 300.10 A1 set out requirements and application material for communicating with those charged with governance. This includes information about the total fees charged during the period covered by the financial statements for audit and non-assurance services provided by the firm and network firms to the audit client.

Audit Clients that are not Public Interest Entities

600.20 A1 A firm or network firm that provides a non-assurance service to an audit client that is not a public interest entity is encouraged to obtain approval for undertaking the non-assurance service engagements in accordance with paragraphs R600.21 to 600.22 A2. When doing so, firms and network firms are also encouraged to communicate the significant judgments made and conclusions reached to address any threats to independence.

Audit Clients that are Public Interest Entities

R600.21 A firm or network firm shall not undertake a non-assurance service to an audit client that is a public interest entity unless it has obtained approval from those charged with governance to provide such service.

600.21 A1 Obtaining approval in advance of providing a non-assurance services to an audit client may present practical challenges. It is important that the firm and those charged with governance agree on the process for obtaining the pre-approval. The pre-approval could be provided on an individual engagement basis; under a general policy; or via other means provided that the process used is approved by those charged with governance.

600.21 A2 The requirements and application material in paragraphs R300.10 to 300.10 are relevant to identifying the individual within the entity who would be appropriate to pre-approve the non-assurance service.

Non-Assurance Services that are Trivial or Inconsequential

600.22 A1 Non-assurance services that are trivial or inconsequential are not subject to the requirements in paragraphs R600.21 provided that:

- (a) They do not create self-review threats; and
- (b) Any threats created are evaluated and addressed in accordance with provisions in paragraphs R600.12 to 600.15 A3.

600.22 A2 A non-assurance service is trivial or inconsequential if the firm or network firm determines that a reasonable and informed third party would be likely to reach the conclusion that the threat to independence is at an acceptable level.

7. Note re paragraphs 600.19 A1 to 600.22.A2

Enhanced Auditor Communications with TCWG

In developing its proposals the Task Force:

- Took into account and incorporated various suggestions from roundtable participants as well as the relevant requirements and application material in the IAASB's standards, including paragraphs 17 and A29–A32 of ISA 260 (Revised).
- Is proposing that the IESBA establish the requirement for firms to obtain NAS pre-approvals for audits of PIEs only.
- Believes that pre-approval would not be required for NAS that are deemed to be trivial or inconsequential and has provided guidance to assist firms in making such determinations.

Other Considerations

Fees Charged for Non Assurance Services

600.23 A1 The fees charged for providing non-assurance services to audit clients might create threats to the firm or the network firm, in particular self-interest threats. The requirements and application material in Section 410 are relevant when providing non assurance services to audit clients.

Providing Non-Assurance Services to an Audit Clients that Later Becomes a Public Interest Entities

R600.249 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 n~~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.

Period During which Independence is Required

All Audit Clients

600.25 A1 Paragraphs R400.31 to 400.31 A2 include requirements and application material that explain the engagement periods in which firms and network firms are required to comply with independence requirements.

R600.26 Before accepting an appointment as an auditor, the firm or network firm shall determine whether it has undertaken a non-assurance service prior to being appointed to conduct the audit engagement which continues to give rise to threats to independence.

600.26 A1 Examples of such non-assurance services include:

- The development of an entity's accounting systems.
- Taking responsibility for designing an entity's system of internal controls.

8. Note re paras 600.23 A1 to 600.26 A1

Fees Charged for NAS, Period During which Independence is Required

The Task Force's fee-related proposals are intended to:

- (a) Acknowledge that the fees charged for providing NAS to audit clients might create threats to the firm or the network firm and that users should refer to the fee provisions in Section 410 (see 600.23 A1).
- (b) Establish a fee-threshold in the Code to respond to concerns about the ratio of audit to fees other than audit fees. This proposed text for the proposed fee threshold is included in the agenda materials Fees agenda papers, but will be presented by the NAS Task Force Chair (i.e., see R410.21 of **Agenda Item 6-B**).
- (c) Clarify the periods for which independence is required when firms provide NAS to entities that become audit clients either before, during or after the period covered by the financial statements (see 600.25 A1 and 600.26 A1).

In developing its fee-related proposals, the Task Force:

- Took into account suggestions from regulatory stakeholders¹ for having a "fee-cap" in the Code as well as the feedback from roundtable participants who suggested a contrary view.

¹ Most recently, during its November 2018 meeting, the Committee of European Auditing Oversight Boards (CEAOB) suggested that the IESBA explore establishing a fee cap as part of its NAS/Fees projects. It was pointed out that in many jurisdictions, fee caps are already required. Accordingly, there was a caution about omitting fee caps as a consideration from the NAS project scope so early in the process.

- Reviewed the current provisions in the Code relating to fee dependency (i.e., paragraphs R410.4 to R410.6) and the definition of fee cap as per Article 4(2) of Regulation 537/2014/EC.
- Obtained input from the Fees Task Force, including the initial suggestion to include provisions that would require firms to re-evaluate threats to independence when the ratio of NAS to audit fees reach a particular threshold.
- Considered the September 2018 CEAOB document, [Monitoring the Fee Cap of Non-audit Fees](#) which was intended to assist stakeholders in Europe (e.g. audit firms, audit committees, oversight bodies, professional bodies, and others) apply regulation on fee caps.

Considerations for Certain Related Entities

R600.2740 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;
~~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;~~
 - (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.

9. Note re para R600.27

Clarifying the Exemptions in the Code for Certain Related Entities

- The proposal to move the exemption for assuming management responsibilities to Section 400 are consequential and aligns to the Task Force's decision relating to management responsibilities that is discussed above (see notes 6 and 11 in this document and proposed R400.14 below).

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

601.12 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.2740 are relevant to [the application of applying](#) the conceptual framework when [evaluating the threats that might arise from the provision of an audit client with](#) accounting and bookkeeping services [to an audit client](#). ~~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](#) ~~All Audit Clients~~

601.23 A1 Accounting and bookkeeping services comprise a broad range of services including:

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

601.23 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 involve:

- Applying accounting standards or policies and financial statement disclosure requirements.
- 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.

~~Such~~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.

601.23 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

601.43 A1 The provision ~~Providing~~of accounting and bookkeeping services to an audit client might create a self-review threat and is generally prohibited.

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.

601.45 A1 Accounting and bookkeeping services that are routine or mechanical in nature, require little or no professional judgment and do not create self-review threat. 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:~~

~~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~~

~~The service relates to matters that are collectively immaterial to the financial statements of the division or related entity.~~

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

602.21 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.2740 are relevant to the application of applying the conceptual framework when evaluating the threats that might arise from the provision of administrative services to an audit client.

Application Material

Description of Service~~All Audit Clients~~

602.23 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.

602.23 A2 Examples of administrative services include:

- Word processing or word for word translation services.
- Objective data search services that assist with the retrieval or simple classification of client owned information.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.

- Monitoring statutory filing dates, ~~and~~ advising an audit client of those dates and advising on compliance with statutory requirements.
- Advisory and assistance services related to an audit client's company secretarial matters and requirements.

Potential Threats Arising from the Provision of Administrative Services

602.~~34~~A1 The Providing of administrative services to an audit client does not usually create a threat.

SUBSECTION 603 – VALUATION SERVICES

Introduction

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.~~2740~~ are relevant to the application of applying the conceptual framework when evaluating the threats that might arise from the provision of ding 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 ClientsDescription 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.~~32~~ 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 application material relating to such services set out in paragraphs 604.9 A1 to 604.9 A5, ~~relating to such services~~, applies.

Potential Threats Arising from the Provision of Valuation Services

603.~~34~~A1 The provision of Providing valuation services to an audit client might create a self-review or advocacy threat.

603.3 A~~23~~23 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 valuation service ~~would have a material effect~~ [is likely to give rise to a self-review threat, individually or in the aggregate,](#) on the financial statements on which the firm will express an opinion.

10. Note re subsections 601 to 603

Accounting and Bookkeeping Services, Administrative Services and Valuations Services

- The Task Force have developed preliminary structural revisions to three of the ten subsections in Section 600. These revisions will enable Board members to see the approach that the Task Force currently envisages for the various subsections, i.e., Subsections 601 to 610.
- Except for certain paragraphs in Subsection 602 relating to Administrative Services, the Task Force does not intend to walkthrough the proposed revisions to subsections 601 to 603 during the Board meeting. The Task Force welcomes Board members' input and suggestions via email.
- With respect to Subsection 602 relating to Administrative Services, Board Members are invited to provide comments or suggestions on the proposed application material containing new examples of administrative services in paragraphs 602.2 A1 to 602.2 A2 during the meeting.

Section B – Consequential Amendment 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 when providing a professional service to ~~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 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.

R400.14 ~~As an exemption to paragraph R.400.13. 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:

- (d) An entity that has direct or indirect control over the client;
- (e) 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
- (f) An entity which is under common control with the client,

provided that all of the following conditions are met:

- (iv) The firm or a network firm does not express an opinion on the financial statements of the related entity;
- (v) 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
- ~~(vi) The services do not create a self-review threat because the results of the services will not be subject to audit procedures; and~~
- ~~(iiiiv)~~ (iiiiv) The firm addresses other threats created by providing such services that are not at an acceptable level.

[Paragraphs 400.153 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.

11. Note re R400.13 to R400.14

New Placement for Provisions Relating to Assuming Management Responsibilities, Including Prohibition and Exemption for Certain Related Entities

- The Task Force proposed revisions to Section 400 are consequential in nature and arise from the Task Force's proposal to move the provisions relating to assuming management responsibilities to Section 400. These proposals are explained in note 6 and 9 of this document.