

## Agenda Item 4-E (Updated)

### Safeguards Phase 2 – Proposed Section 950 [Mark-up From December 13, 2016 IESBA Discussion]

*Note to Meeting Participants:* This document sets out the proposed layout for Safeguards ED-2. It also includes the proposed text for Section 950, which is a revision of Section 291.138-291.148 of the extant Code taking into account the changes from the Safeguards and Structure projects. Section 950 is adapted to the approach set out in Section 600.

This is the **first-read** of Section 950.

## Chapter 1 – Proposed Revisions to Safeguards in the Non-Assurance Services Sections of the Code (Proposed Sections 600 and 950)

### Part 4A – International Independence Standards for Audits and Reviews

...

#### Section 600

##### Provision of Non-assurance Services to an Audit Client

Subject to IESBA's approval, the finalized proposed text for Section 600, will be included here in the January 2017 Safeguards ED-2

### Part 4B – International Independence Standards for Other Assurance Clients Engagements

...

#### Section 950

##### Provision of Non-assurance Services to an Assurance Client

###### Introduction

- 950.1 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.
- 950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence, self-review, self-interest and advocacy threats.
- 950.3 Section 950 sets out specific requirements and application material relevant to applying the conceptual framework when providing non-assurance services to assurance clients.

Commented [DJ1]: New para

Commented [SDS2]: 291.138, adapted from 600.1.

Commented [DJ3]: New para. adapted from 600.3

## Requirements and Application Material

### General

**R950.4** Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall determine whether providing such a service would create a threat to independence.

950.4 A1 The requirements and application material in Section 950 assist firms in analyzing certain types of non-assurance services and the related threats that might be created when a firm accepts or provides non-assurance services to an **assurance** client.

Commented [IESBA4]: New para. adapted from 600.4 A1

950.4 A2 New business practices, the evolution of financial markets and changes in information technology are amongst the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client. As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to an assurance client.

Commented [SDS5]: New para. adapted from 600.4 A2

950.4 A3 Factors that are relevant in evaluating the level of any threats created by providing a non-assurance service to an assurance client include:

Commented [DJ6]: adapted from 600.4 A4

- The nature of the service, and the degree of reliance if any, that will be placed on the outcome of that service as part of the assurance engagement.
- Whether the outcome of the service will affect matters reflected in the subject matter or subject matter information of the assurance engagement, and, if so:
  - The extent to which the outcome of the service will have a material or significant effect on the subject matter of the assurance engagement.
  - The extent of the assurance client's involvement in determining and accepting its responsibilities for those matters where they involve significant professional judgment.
  - The extent of the assurance client's involvement in determining significant matters of judgment.
- The level of expertise of the client's employees with respect to the type of service provided.

### Materiality In Relation to an Assurance Client's Information

950.4 A4 Materiality in relation to an assurance client's information is addressed in *International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

Commented [DJ7]: New para. adapted from 605.A1

*Avoiding Management Responsibilities*

**R950.5** A firm shall not assume a management responsibility as part of an assurance service. If the firm assumes a management responsibility as part of any other services provided to the assurance client, the firm shall establish appropriate policies and procedures to ensure that the responsibility is not related to the subject matter or subject matter information of the assurance engagement provided by the firm.

**Commented [DJ8]:** 291.143

950.5 A1 Assuming a management responsibility as part of an assurance service creates self-review, self-interests and familiarity threats.

950.5 A2 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.

**Commented [DJ9]:** 291.141

950.5 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered a management responsibility include:

**Commented [DJ10]:** 291.143

- 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 of bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

950.5 A4 Providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility (see paragraphs R950.4–950.4 A2).

**Commented [DJ11]:** New para adapted from 600.5 A1

**R950.6** When providing services that are related to the subject matter or subject matter information of an assurance engagement, the firm shall be satisfied that client management makes all related judgments and decisions. This includes ensuring that the client's management:

**Commented [DJ12]:** 291.144

- (a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. Such an individual, preferably within senior management, would understand:
- (i) The objectives, nature and results of the services: and -
  - (ii) The respective client and firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the services.

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

#### Multiple Non-assurance Services to an Assurance Client

950.7 A1 A firm might provide multiple non-assurance services to an assurance client. When providing a non-assurance service to an assurance client, applying the conceptual framework requires the firm to consider any combined effect of threats created by other non-assurance services provided to the assurance client.

Commented [DJ13]: New para. adapted from 600.6 A1

#### Other Considerations Related to Providing Specific Non-Assurance Services

950.8 A1 A self-review threat might be created if the firm is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement.

Commented [DJ14]: 291.146/ 147

950.8 A2 ~~For example~~Examples of non-assurance services that might create a self-review threats ~~include is created:~~

- (a) ~~When a firm provides a non-assurance s~~Providing services related to the subject matter information of an assurance engagement.
- (b) ~~If the firm is involved in the preparation~~Preparing of subject matter information which is subsequently the subject matter information of an assurance engagement, such as, if the firm developed and prepared prospective information and subsequently provided assurance on this information.
- (c) ~~When a firm p~~Performings a valuation that forms part of the subject matter information of an assurance engagement.

Commented [IESBA15]: 291.146

Commented [IESBA16]: 291.14

Commented [IESBA17]: 291.148

## Chapter 2 – Other Conforming Amendments Arising from Phase 1 of the Safeguards Project Not Included in Structure ED-2

Phase 2 Safeguards Exposure Draft will include the relevant extracts of the text in Structure Phase 1, marked from the Structure ED-1, to show the substantive conforming amendments arising from the Safeguards project (i.e., the text that is shaded in gray in Agenda Item 3-B).

As noted at Agenda Item 3, the proposed conforming amendments arising from the Safeguards project to the Structure Phase 2 text will be included in the Structure Phase 2 ED only and will be shaded in gray. The material will not be repeated in Safeguards ED-2. The EM to Safeguards ED-2, like Agenda Item 4-A will include an explanation of the nature of the conforming amendments arising from the safeguards project.

*The EMs to Safeguards and Structure Phase 2 EDs will both solicit feedback from respondents about the appropriateness and completeness of the conforming amendments arising from the Safeguards project. Additionally, the EM to Structure ED-2 will encourage respondents to direct their comments about those conforming amendments in their response to Safeguards ED-2.*