

Basis for Conclusions
Prepared by the Staff of the IESBA®
April 2021

*International Ethics Standards Board
for Accountants®*

Revisions to the Non-Assurance Services Provisions of the Code

IESBA

**International
Ethics Standards
Board for Accountants®**



International
Ethics Standards
Board for Accountants®

About the IESBA

The [International Ethics Standards Board for Accountants®](#) (IESBA®) is an independent global standard-setting board. The IESBA's mission is to serve the public interest by setting ethics standards, including auditor independence requirements, which seek to raise the bar for ethical conduct and practice for all professional accountants through a robust, globally operable [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).

The IESBA believes a single set of high-quality ethics standards enhances the quality and consistency of services provided by professional accountants, thus contributing to public trust and confidence in the accountancy profession. The IESBA sets its standards in the public interest with advice from the [IESBA Consultative Advisory Group](#) (CAG) and under the oversight of the [Public Interest Oversight Board](#) (PIOB).

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants® (IFAC®).

Copyright © April 2021 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see [page 37](#).

**BASIS FOR CONCLUSIONS:
REVISIONS TO THE NON-ASSURANCE SERVICES (NAS)
PROVISIONS OF THE CODE**

CONTENTS

	Page
I. Introduction	4
A. Highlights of Revised NAS Provisions.....	4
II. Background	5
A. Development of the Project Proposal.....	5
B. Objective of the Project	6
C. Interaction with Other IESBA Work Streams and Coordination with IAASB	6
D. NAS Exposure Draft	8
III. Key Issues Relating to the Revision of Section 600, Including Subsections	10
A. Self-review Threat Prohibition, Providing Advice and Recommendations and Materiality...	10
B. Firm Communications with TCWG, Including Audit Committees	18
C. Appropriateness of NAS Safeguards	22
D. Documentation	24
E. Revisions to the Specific Provisions in Subsections 601 to 610.....	24
IV. Conforming and Consequential Amendments	33
A. Matters Relevant to Section 400	33
B. Matters Relevant to Section 950	34
V. Effective Date and Transitional Provision	35

I. Introduction

1. At its December 2020 virtual meeting, the IESBA unanimously approved the revisions to the non-assurance services (NAS) provisions of the Code with the affirmative votes of 15 out of 15 IESBA members present.
2. This Basis for Conclusions is prepared by IESBA staff and explains how the IESBA has addressed the significant matters raised on exposure and in the course of finalizing the revisions. It relates to, but does not form part of, the revisions to the NAS provisions that are set out in the final pronouncement.
3. The [revised NAS provisions](#) will replace Section 600¹ for audit and review engagements, and Section 950² for assurance engagements other than audit and review engagements.³ Consequential and conforming amendments have been made to Sections 400,⁴ 525,⁵ and 900.⁶ A staff-prepared supplemental document, [Mapping Table: Non-Assurance Services – Comparison of Extant and Revised Provisions](#) accompanies the final pronouncement and is intended to assist firms, professional accountancy organizations (PAOs), national standard setters (NSS) and other stakeholders understand the nature of the revisions to the extant Code.

A. Highlights of Revised NAS Provisions

4. The revised NAS provisions contain substantive revisions that will enhance the [International Independence Standards](#) (IIS) by clarifying and addressing the circumstances in which firms and network firms may or may not provide a NAS to an audit or assurance client. The revised provisions include new requirements that expressly prohibit firms and network firms from providing certain types of NAS to their audit clients, especially when they are public interest entities (PIEs).⁷ Key changes to the extant IIS arising from the NAS project include:
 - A new general prohibition on the provision of a NAS to an audit client that is a PIE if the provision of that service might create a self-review threat to the firm's independence (see

¹ Part 4A – Independence for Audit and Review Engagements, Section 600, *Provision of Non-assurance Services to an Audit Client*

² Revised Part 4B – Independence for Assurance Engagements Other than Audit and Review Engagements, Section 950, *Provision of Non-assurance Services to Assurance Clients Other Than Audit and Review Engagement Clients*

³ In January 2020, the IESBA released revisions to Part 4B, [Alignment of Part 4B of the Code to ISAE 3000 \(Revised\)](#), to align the independence provisions in Part 4B of the Code with the revised assurance terms and concepts in the International Auditing and Assurance Standards Board's (IAASB's) International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

⁴ Part 4A, Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

⁵ Part 4A, Section 525, *Temporary Personnel Assignments*.

⁶ Revised Part 4B, Section 900, *Applying the Conceptual Framework to Independence for Assurance Engagements Other Than Audit and Review Engagements*

⁷ The extant Code defines a PIE as:

(a) A listed entity; or

(b) An entity:

(i) Defined by regulation or legislation as a PIE; or

(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

As further discussed below, in January 2021, the IESBA released an Exposure Draft with proposals that include a revised definition of PIE. See section V for a discussion on the effective dates for the revised NAS provisions and the proposed PIE definition.

paragraph R600.16).

- New provisions to assist firms and network firms in identifying and evaluating self-review threats that might be created by the provision of a NAS to an audit client (see paragraphs 600.13 A1 to R600.14).
- New guidance indicating that the provision of advice and recommendations might create a self-review threat and which also explains the circumstances in which a firm or a network firm may provide advice and recommendations to an audit client (see paragraphs 600.11 A1 and R600.17 to 600.17 A1).
- New provisions to strengthen and improve the quality of firm communication with those charged with governance (TCWG) about NAS-related matters, especially in the case of audit clients that are PIEs and entities within that PIE's corporate structure (see paragraphs 600.20 A1 to R600.24).
- Enhanced guidance to explain that the concept of materiality is not relevant in evaluating whether a self-review threat might be created by the provision of a NAS to an audit client that is a PIE (see paragraphs 47(c) and 59 of this document).
- Strengthened provisions to assist firms in addressing threats to independence that are created by the provision of NAS to audit clients that are not PIEs, including new application material in relation to situations where a safeguard is not available (see 600.18 A1 to 600.18 A4).
- New provisions and structural refinements to promote the consistent application of the NAS provisions. For example:
 - The revised NAS provisions identify certain situations where a self-review threat to independence is not created (see paragraphs R601.7, 604.12 A2 and 604.17 A3).
 - The provisions that prohibit firms and network firms from assuming a management responsibility are given more prominence by being repositioned to Section 400.
 - The provisions related to acting as a witness are revised and include application material to explain the circumstances in which the advocacy threat created by acting as an expert witness will be at an acceptable level (see paragraphs 607.7 A1 to R607.9).

II. Background

A. Development of the Project Proposal

5. The project to revise the NAS provisions of the Code was a high priority commitment in the IESBA's [Strategy and Work Plan, 2019-2023](#). It responded to a number of legal and regulatory developments aimed at addressing issues affecting auditor independence, including audit firms' provision of NAS to audit clients. Some regulatory stakeholders and the Public Interest Oversight Board (PIOB) had also called on the IESBA to review the IIS relating to the provision of NAS to audit clients.
6. The project, which was approved in September 2018, was informed by the [feedback](#) received on a Briefing Paper, [Non-Assurance Services – Exploring Issues to Determine a Way Forward](#), that was discussed at four global roundtables,⁸ as well as advice from the IESBA Consultative

⁸ About 150 senior-level delegates representing a wide range of stakeholder groups (including investors, regulators, public

Advisory Group (CAG). The IESBA also took into account the suggestions that it received from respondents to its December 2015 Exposure Draft (ED), [Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#), January 2017 ED, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments](#), and November 2017 [Fees Questionnaire](#).

B. Objective of the Project

7. The objective of the project was to strengthen the IIS by addressing public interest concerns about the perceived lack of independence when firms provide NAS to their audit clients. In developing the revised NAS provisions, the IESBA actively monitored and considered relevant jurisdiction-level developments and initiatives impacting auditor independence requirements, especially in relation to NAS that firms may provide to their audit clients.
8. The final NAS provisions are significantly more robust and contain new restrictions that the IESBA deems appropriate for global adoption in today's business environment and to meet public interest expectations.

C. Interaction with Other IESBA Work Streams and Coordination with IAASB

Fees Project

9. The NAS project and the [Fees project](#) were finalized concurrently. The final pronouncement, *Revisions to the Fee-related Provisions in the Code*, strengthens the independence requirements for firms with respect to fees paid by an audit client. In particular, in the case of audit clients that are PIEs, the revised provisions provide for the disclosure of fee-related information to TCWG and to the public, including in relation to NAS.
10. The IESBA's revised NAS and fee-related provisions collectively seek to:
 - Focus attention on potential threats to independence created by fees, and
 - Improve transparency about fee-related matters for audit clients that are PIEs, including the fees for services other than audit (including NAS fees).
 (See paragraphs 600.9 A2, last bullet and 600.21 A1, second bullet.)
11. In developing the NAS revisions, the IESBA considered including a fee cap in relation to NAS to mitigate threats to independence. Although fee caps are already established in certain jurisdictions (e.g., the European Union), the IESBA determined that restrictions such as fee caps would not be operable at the global level. The IESBA noted feedback from NAS roundtable participants who, with the exception of some European-based regulatory participants, expressed little or no support for establishing fee caps in the Code.⁹

sector representatives, preparers, TCWG, NSS, regional and international organizations, and representatives of the accountancy profession (both those in public practice and in business) participated in or observed the IESBA's roundtables. The roundtables were held in Washington, DC, U.S.A.; Paris, France; Tokyo, Japan; and Melbourne, Australia in June/July 2018.

⁹ With respect to fee caps, roundtable participants, including some investor stakeholders, expressed the following views:

- With enhanced transparency about NAS and NAS fees, market forces would address the NAS issues.
- The IESBA would be going beyond its remit in establishing fee restrictions, in particular, fee caps in the Code. They noted that fee caps are often dealt with in sovereign and anti-trust laws at the jurisdiction level.
- Establishing fee restrictions involves complex definitional issues.

12. Further, as the IESBA expects that the more robust NAS and fee-related provisions are likely to address the concerns raised by stakeholders, there would be little or no benefit in introducing fee caps.

Benchmarking Initiative

13. The IESBA is undertaking a [Benchmarking Initiative](#) to compare the IIS that are applicable to PIEs (including the revised NAS and fee-related provisions) to the relevant independence requirements that apply in major jurisdictions, starting first with the requirements of the US Securities and Exchange Commission (SEC) and the US Public Company Accounting Oversight Board (PCAOB). The initiative will result in a comprehensive assessment of the extent to which the IIS and independence requirements in major jurisdictions are aligned and any significant differences. It is envisaged that the outcome of this exercise will support effective implementation of the revised NAS provisions, and contribute to users' understanding of the changes that have been made to the extant IIS.

PIE Project

14. As part of its Strategy and Work Plan 2019-2023, the IESBA committed to revisit the extant definitions of PIE and listed entity in the Code. As the NAS and Fees projects advanced, it became apparent that the review of these definitions needed to be accelerated to provide clarity about the scope of entities that would be impacted by the proposed changes. Accordingly, the IESBA approved a project to review these definitions ([PIE project](#)).
15. The primary outcome of the PIE project will be to better delineate the types of entities that should be considered PIEs. It is envisaged that the final provisions arising from the PIE project will apply throughout the IIS, including the NAS and fee-related provisions.
16. In January 2021, the IESBA released the Exposure Draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (PIE ED) with a comment deadline of May 3, 2021. The PIE ED includes proposed revisions that broaden the definition of PIE to include more categories of entities, given the level of public interest in their financial condition, for the purposes of additional independence requirements to enhance confidence in their audit.
17. As the concepts underlying the definition of a PIE in the Code are also relevant to the description of an entity of significant public interest in the auditing standards issued by the International Auditing and Assurance Standards Board (IAASB), the IESBA coordinated closely with the IAASB when developing the PIE ED. The Boards agreed to include specific questions in the PIE ED in order to obtain preliminary views from IAASB stakeholders on those matters relating to the IAASB Standards as part of the IAASB's information gathering and consideration of possible further actions.
18. The approach taken by the IESBA when setting the effective dates for the revisions arising from the NAS, Fees and PIE projects is set out in section V below.

Technology Project

19. Informed by its Technology Working Group's [Phase 1 Final Report](#), the IESBA approved the Technology project in March 2020 to enhance the Code's provisions in response to the

-
- Caution should be exercised in considering whether to establish a NAS fee threshold because doing so might have the unintended consequence of signaling to firms that do not typically provide NAS to their audit clients to revisit their policy.
 - Establishing fee restrictions is very granular and would be inappropriate in a principles-based Code.

transformative effects of major trends and developments in technology on the accounting, assurance and finance functions.

20. The IESBA has been pursuing the Technology project in conjunction with finalizing the NAS project in 2020 and, among other matters, has focused its deliberations on:
- Exploring how the NAS provisions might be revised to address the ethical implications of technology on the provision of NAS to audit clients; and
 - Considering whether guidance outside the Code should be developed to help firms and others (e.g., regulators) navigate the disruptions and opportunities resulting from the developments in technology.
21. As part of its 2020 deliberations, the IESBA also considered stakeholder concerns about:
- The frequency and pace of changes to the Code.
 - The unprecedented pace at which disruptive technologies are evolving and the increased pressures resulting from the COVID-19 pandemic.
22. Having reflected on those concerns, the IESBA is proposing a period after the release of the NAS final pronouncement to support focused awareness raising and adoption. A [communication](#) about the IESBA's updated work plan and timeline for its technology initiative was released in April 2021.

IAASB-IESBA Coordination

23. The IESBA liaised with the IAASB to ensure that the provisions relating to firm communication with TCWG in both the NAS and the fee-related provisions are consistent or otherwise interoperable with the requirements and application material in the IAASB's ISA 260 (Revised).¹⁰ The IAASB agreed that once all the relevant IESBA projects, i.e., the Fees, NAS and PIE projects, have been finalized, it would consider whether any revisions to the communication requirement in ISA 260 (Revised) would be warranted. The specific proposals relating to improved firm communication with TCWG in relation to NAS are further discussed in section III below.

D. NAS Exposure Draft

24. Informed by extensive stakeholder input, including the global roundtables discussed in section II.A of this document, the IESBA released the Exposure Draft, [Proposed Revisions to the Non-Assurance Services Provisions of the Code](#) (NAS ED) in January 2020.
25. [Sixty-six comment letters](#) were received across a wide range of stakeholder groups and geographical regions. In addition to two Monitoring Group (MG)¹¹ members, respondents included regulators and audit oversight bodies, PAOs,¹² independent NSS,¹³ firms, public sector

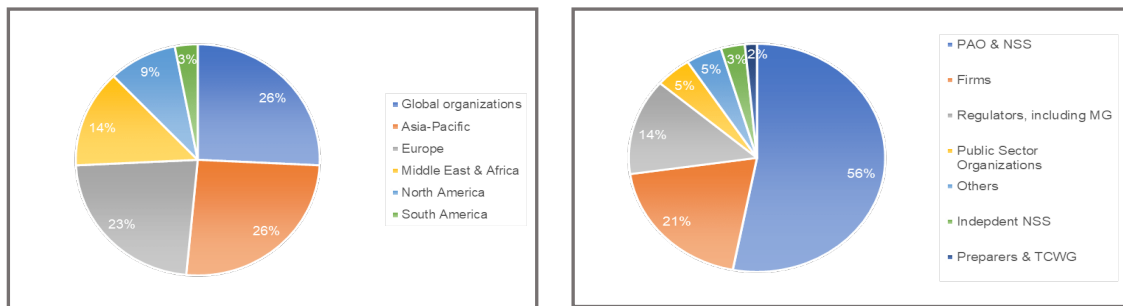
¹⁰ International Standard on Auditing (ISA), 260 (Revised), *Communication with Those Charged with Governance*

¹¹ The MG respondents were the International Forum of Independent Audit Regulators (IFIAR) and the International Organization of Securities Commissions (IOSCO).

¹² For purpose of analyzing its comment letters, the IESBA deems a PAO to be a member organization of professional accountants, of firms, or of other PAOs. PAOs include but are not limited to members of the International Federation of Accountants (IFAC). PAOs might have full, partial, or shared responsibility for setting national ethics standards, including independence requirements, in their jurisdictions.

¹³ Independent NSS have a mandate to set national audit and ethics standards, including independence requirements, and do not belong to PAOs.

organizations, preparers and TCWG, and others.



26. On balance, respondents across stakeholder groups and regions expressed clear support for the NAS proposals. They also suggested drafting improvements and shared a number of concerns and other comments. The principal matters raised by respondents, and the approach taken by the IESBA in response, are discussed in section III below.
27. The IESBA revised its proposals to address matters raised by respondents to the ED, taking into account input provided by the CAG, and targeted outreach with representatives of the following stakeholder groups:
- Committee of European Auditing Oversight Bodies (CEAOB).
 - Forum of Firms (FoF).¹⁴
 - IESBA-NSS Liaison Group.¹⁵
 - IFAC Small and Medium Practices Advisory Group (SMPAG).
 - IFIAR.
 - IOSCO.

General Feedback from Respondents

28. Although respondents were generally supportive of the NAS proposals, some respondents suggested that the IESBA reconsider its work plan and, in particular, the timeline for the NAS project on the following grounds:
- **The COVID-19 Pandemic:** There was a view that a post-COVID-19 world may look very different and it may be more appropriate for the IESBA to postpone consideration of changes until there is more stability and the way that businesses have had to adapt is better understood.
 - **The PIE Project:** Respondents from a range of stakeholder groups expressed concern that, as the IESBA is revisiting the PIE definition in the Code, there is a lack of certainty regarding the entities in respect of which firms would need to comply with the NAS provisions. It was

¹⁴ The Forum of Firms is an independent association of international networks of accounting firms that perform [transnational audits](#). Members of the Forum adopt policies and methodologies that align to the Code when conducting such audits.

¹⁵ The IESBA-NSS liaison group comprises a group of NSS (both independent NSS and organizations that hold dual NSS-PAO roles) that share the common goal of promulgating high-quality ethics standards, including independence requirements, and seeking convergence for those standards. Participating jurisdictions include Australia, Brazil, Canada, China, France, Germany, Hong Kong SAR, India, Japan, the Netherlands, New Zealand, the Russian Federation, South Africa, the UK, and the US.

suggested that the IESBA consider deferring the revisions to its NAS and fee-related provisions until after it had exposed and finalized the revised PIE definition.

- **Pace of Change:** Some respondents, in particular those from non-native English-speaking jurisdictions and SMPs, highlighted the difficulty in keeping up with the pace of changes to the Code and more broadly the changes in relevant laws, regulations and professional standards.
- **Technology:** Some respondents expressed a view that the NAS-related technology proposals should be exposed and finalized before completing the NAS project and that the two sets of revisions should come into effect at the same time.

IESBA Decisions

29. The IESBA considered the feedback from respondents and discussions held with key stakeholders in 2020 in relation to the NAS project. For the following reasons, the IESBA concluded that it is in the public interest to finalize the NAS project within its planned timeframe.
- The NAS and Fees projects focus on PIE audit clients and are intended to strengthen the provisions relating to certain NAS and fee-related matters in order to enhance stakeholder confidence in the auditor's independence with respect to those audit clients. As a result, the focus has been on the principles (and requirements) that should apply to audits of PIEs (however defined) as compared to audits of non-PIEs. Against this background, the IESBA concluded that it would not be relevant for the revisions to the Code's NAS and Fees provisions to be conditioned on how a PIE is defined.
 - The proposed revisions to the PIE definition are intended to promote more consistent use and application of the extant definition, as opposed to significant change to the nature and types of entities to be categorized as PIEs.
30. Section V includes a discussion of the considerations and approach taken by the IESBA in setting the effective dates of the revisions arising from the PIE, NAS and Fees projects and to address broader concerns about the disruptions caused by the COVID-19 pandemic, and the pace and scale of changes to the Code.

III. Key Issues Relating to the Revision of Section 600, Including Subsections

A. Self-review Threat Prohibition, Providing Advice and Recommendations and Materiality

The NAS ED

Self-review Threat Prohibition¹⁶

31. The proposals in the NAS ED reflected the IESBA view that when an audit client is a PIE, stakeholders have heightened expectations regarding the firm's independence and that a self-review threat created by the provision of a NAS to such a client cannot be eliminated, and safeguards are not capable of being applied to reduce them to an acceptable level. Accordingly, the NAS ED proposed:
- A requirement to prohibit the provision of a NAS to an audit client that is a PIE if a self-review threat will be created in relation to the audit of the financial statements on which the firm will express an opinion.

¹⁶ With respect to the NAS proposals relating to self-review threat, refer to the feedback from respondents at paragraphs 37 to 40 and the IESBA decisions at paragraphs 47-55.

- Application material relating to the identification of threats to independence, in particular in relation to a self-review threat that is created or might be created by providing a NAS to an audit client.
32. The proposed prohibition did not apply to audit clients that are non-PIEs. Under the NAS ED, firms and network firms could continue providing NAS to audit clients that are non-PIEs provided that any identified self-review threat is reduced to an acceptable level in accordance with the provisions in the conceptual framework.
33. In addition to the new application material to help firms determine whether a NAS will create a self-review threat, the NAS ED clarified that the factors that firms generally consider when evaluating threats to independence are also relevant in identifying threats, including those relating to self-review. Two new factors were added to the examples of factors for evaluating threats in [extant paragraph 600.5 A1](#) (i.e., “the manner in which the NAS will be provided” and “the fees relating to the provision of the NAS”).

Providing Advice and Recommendations¹⁷

34. The NAS ED included application material to explain that the provision of advice and recommendations that might create a self-review threat in the case of audit clients that are PIEs is prohibited. For audit clients that are non-PIEs, the extant approach which requires firms to apply the conceptual framework to address any resulting threats to independence was retained. The NAS ED also proposed application material to clarify when the provision of advice and recommendation to an audit client will not create a self-review threat, including in the case of audit clients that are PIEs.

Materiality¹⁸

35. The NAS ED proposed the withdrawal of the materiality qualifier¹⁹ in the extant Code for audit clients that are PIEs, thereby making the prohibitions resulting from risk of the self-review threat applicable even where the outcome or result of the NAS is immaterial.
36. In addition, the NAS ED proposed the withdrawal of the materiality qualifier for all audit clients, including non-PIEs when: (i) the effectiveness of certain types of tax advice or corporate finance advice is dependent on a particular accounting treatment or presentation; and (ii) the audit team has doubt about the appropriateness of that treatment or presentation.

¹⁷ With respect to the NAS proposals relating to the provision of advice and recommendations, refer to the feedback from respondents at paragraphs 41 to 42 and the IESBA decisions at paragraphs 56-58.

¹⁸ With respect to the NAS proposals relating to materiality, refer to the feedback from respondents at paragraphs 43 to 45 and the IESBA decisions at paragraph 59.

¹⁹ With respect to audit clients that are PIEs, the extant Code allows firms and network firms to provide certain types of NAS if the firm or network firm determines that the outcome or result of the NAS is immaterial or not significant to the financial statements on which the firm will express an opinion (See extant [R603.5](#), [R604.6](#), [R604.8](#), [R604.11](#), [R605.5](#), [R606.5](#), [607.3 A4](#), [R608.6](#), [R610.5](#)). A high-level summary of those extant NAS prohibitions for audit client that are PIEs is set out in a November 2019 publication titled, [Summary of Prohibitions Applicable to Audit Clients that are Public Interest Entities](#). The NAS proposals responded to stakeholders who have:

- Questioned the appropriateness of an approach that allowed firms the discretion to consider materiality in determining whether to provide a NAS to an audit client (highlighting the potential for inconsistent approaches).
- Urged the Board to explore limiting the availability of such discretion.

Feedback from Respondents

Self-review Threat Prohibition

37. On balance, respondents were supportive of the new prohibition on the provision of NAS that might create a self-review threat for audit clients that are PIEs. Some pointed out that similar restrictions already exist in national auditor independence requirements in some jurisdictions. Those respondents who did not support the proposed self-review threat prohibition, did so because the proposed provision did not allow for the consideration of the materiality of the result or outcome of the NAS.
38. In addition to many drafting suggestions to improve the clarity of the proposed text, the following substantive comments were raised:
- In relation to the proposed self-review threat prohibition:
 - It was suggested that the IESBA consider extending the prohibition to audits of non-PIEs. A respondent suggested that the IESBA consider an approach that recognizes that all threats created by providing NAS to an audit client may be at an unacceptable level.
 - Some respondents commented that it was not clear that the proposed prohibition would extend to NAS that were not addressed in the subsections of the Code (e.g., technology related NAS).
 - The IESBA was urged to avoid the use of the phrase "...will create..." because the terminology was viewed as raising the threshold at which the prohibition would apply and so make the requirement less robust and more difficult to enforce.
 - It was suggested that the proposed prohibition should be applicable to parent undertakings of an unlisted PIE and that the IESBA should adopt a consistent approach for all PIEs — listed and unlisted — so that it would be aligned to the approach in the EU Audit Regulation for those parent undertakings within the Union.
 - Concern was expressed about the implications of the self-review threat prohibition on smaller PIEs, particularly in light of the COVID-19 pandemic.
 - In relation to the proposed application material, including the guidance to assist firms to determine whether a NAS will create a self-review threat:
 - A few respondents believed that the services covered in the subsections in Section 600 of the Code create self-review threats in almost all circumstances and suggested that the IESBA consider strengthening its proposals by elevating the guidance for determining a self-review threat to a requirement.
 - Concerns were raised that:
 - Use of the phrase "whether there is a risk that" would be inconsistent with the language used in the Code's conceptual framework.
 - The reference to "audit procedures" would be viewed as reintroducing the concept of materiality. The concern was that if a firm concluded that the output of a NAS would be immaterial, that output would not be subject to audit procedures with the consequence that no self-review threat could arise and the NAS could be provided.
 - Whether one or all of the considerations provided by the application material needed to be present in order for a self-review threat to exist.

39. A few respondents did not support the proposed self-review threat prohibition, particularly because they disagreed with the IESBA's position on materiality. Those respondents expressed a view that the consideration of the "real impact on auditor independence of mind" and the Code's concept of a reasonable and informed third-party test are sufficient.
40. A number of respondents noted that it was difficult to understand, without specific examples, how a firm should assess whether the combined effect of providing multiple NAS to the same audit client creates new threats or affects the level of a previously identified threat to independence.

Providing Advice and Recommendations

41. There were different views about the likelihood of a threat being created by the provision of advice and recommendations to an audit client. Although most respondents agreed with the ED position, the following views were expressed.
 - The provision of advice and recommendations to audit clients already creates a self-review threat and should be identified as such.
 - The extant Code's restriction on assuming a management responsibility for an audit client is sufficient to address the self-review threats that might arise from the provision of advice and recommendations.
 - The prohibition on the provision of advice and recommendation that will create a self-review threat in the case of audit clients that are PIEs may restrict firms from providing services resulting from the audit process that are integral to the performance of high-quality audits (e.g., evaluating and making recommendations for improvements to internal controls).
 - There was a concern that having a different approach for audit clients that are PIEs and those that are non-PIEs is confusing and may over time lead to the conclusion that providing advice and recommendations is prohibited for non-PIEs.
42. Section IV below includes a discussion of respondents' feedback on the proposed application material relating to the provision of tax advice that does not create a self-review threat.

Materiality

43. On balance respondents were generally supportive of the ED position with respect to materiality. Those respondents who did not support the withdrawal of the materiality qualifier expressed concerns about the immediate implications for small- and medium-sized entities that are also PIEs, and the longer-term implications for audit clients that are non-PIEs.
44. There was support for the IESBA's proposal to withdraw the consideration of materiality in relation to the provision of certain tax and corporate finance services in limited circumstances.²⁰ A respondent pointed out that "auditors should not support positions where the accounting treatment likely does not comply with the applicable financial reporting framework."
45. Concern was expressed about the appropriateness of the use of words such as "not significant" when setting a threshold for the permissibility of certain NAS (e.g., for the customization of off-the-shelf accounting or financial reporting software that was not developed by the firm or network firm) because such terminology allows for the possibility of subjective judgment and, therefore, inconsistent application of the Code.

²⁰ The circumstances are: (i) when the effectiveness of the service depends on a particular accounting treatment or presentation in the financial statements; and (ii) when the audit team has doubt as to the appropriateness of the related accounting treatment under the relevant financial reporting framework.

IESBA Decisions

46. Revisions were made to clarify the requirements and application material relating to the self-review threat prohibition, providing advice and recommendations, and materiality. However, the underlying premise and objectives for these final NAS provisions remain unchanged from the ED.

Self-review Threat Prohibition

47. With respect to the self-review threat prohibition:

- (a) In paragraph R600.16, the IESBA determined to replace the term “will create” with “might create.” The change makes it clear that under the Code, the provision of a NAS is prohibited once a firm identifies a risk that a self-review threat might be created – as opposed to where that firm concludes that a self-review threat will in fact be created.
- If the threshold is whether the proposed NAS “will create” a self-review threat, the prohibition in paragraph R600.16 would only apply if the firm concluded that the proposed NAS will create a self-review threat. If the evaluation of the risks involved in providing the proposed NAS did not result in the firm concluding that a self-review threat will be created, the prohibition would not apply.
 - The use of “might create” in the final NAS provisions avoids the risk that a firm might incorrectly conclude (a) that a proposed NAS will not create a self-review threat, or (b) that the outcome of the proposed NAS will not be subject to audit procedures, thereby circumventing the prohibition.
 - Therefore, the use of the “might create” threshold in the final NAS provisions is a stricter position and is responsive to regulatory respondents who noted that the use of “will create” is “...less onerous for the auditor, and [risks] undermining the requirement.”
- (b) The application material for identifying a self-review threat is elevated to a requirement. In addition, it reflects a simplified and clearer formulation of the approach that firms should take in determining whether the provision of a NAS might give rise to a self-review threat (see paragraph R600.14). To address the concerns raised by respondents summarized in paragraph 38 above:
- The IESBA has deleted the reference to the phrase “audit procedures” in the application material supporting the self-review threat prohibition.
 - Adhering to the [December 2017 drafting conventions](#) established for the revised and restructured Code, the IESBA reaffirmed the use of a letter-list in paragraph R600.14 of the final NAS provisions, which means that the considerations in subparagraphs (a) and (b) apply and need to be satisfied together.
- (c) The revised provisions reflect several refinements to ensure that application material relating to the identification and evaluation of threats to independence applies generally, and not solely to potential self-review threats. For example:
- Within the general provisions, the IESBA revised the lead-in sentence in paragraph 600.9 A2 to state that “Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit client, and evaluating the level of such threats...”
 - Within subsections 601 to 610, the IESBA:
 - Added a statement after the bulleted list of factors to be considered in

identifying and evaluating threats for specific types of services to emphasize that *when a self-review threat with respect to an audit client that is a PIE has been identified, the self-review threat prohibition applies* (see paragraphs 603.3 A2, 604.12 A3, 604.22 A1, 605.4 A3, 606.4 A3, 607.4 A1, 608.5 A1 and 610.4 A1).

- Added a cross-reference to the requirements in the general provisions that prohibit the provision of a NAS that might create a self-review threat in the case of an audit client that is a PIE (see paragraphs R600.14 and R600.16). This cross-reference emphasizes that these requirements in the general NAS provisions are relevant in applying the requirements in the subsections that prohibit the provision of specific types of NAS that might create a self-review threat.
- Amended the statement about the likelihood of a self-review threat being created from “might create” to “creates” in the case of:
 - (i) The provision of accounting and bookkeeping services (see paragraph 601.4 A1).
 - (ii) The preparation of tax calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that support such balances (see paragraph 604.8 A1).

“Creates” is used in those paragraphs to reflect the fact that, in both instances, the provision of the NAS to the audit client will always create a self-review threat. In contrast, “might create” is used where the provision of a NAS of the specified nature to an audit client might give rise to a self-review threat, but there might also be circumstances where no risk of a self-review threat would arise.

- Deleted the phrase “...in relation to the audit of the financial statements on which the firm will express an opinion” that was included in NAS ED (see paragraphs R601.6 and R604.10). These deletions respond to PIOB concerns that such wording was unnecessary. The IESBA agreed that the provision of accounting and bookkeeping services and tax calculation services to an audit client always impact the accounting records and, therefore, the financial statements of the audit client.

48. The IESBA considered the arguments put forward for extending the self-review threat prohibition to all audit clients. The IESBA reaffirmed its initial view that stakeholder concerns about a firm’s independence are heightened in the case of an audit client that is a PIE. For an audit client that is a non-PIE, the IESBA determined that, on balance, having access to the support of its auditor contributes to the effective management of the entity, and the level of the threat to independence is generally capable of being reduced to an acceptable level by applying safeguards. The IESBA determined that it is important, and is in the public interest, that the Code does not impose disproportionate regulatory burdens, undue costs, and complexity on non-PIEs.

Applicability of the self-review threat prohibition, including considerations for related entities

49. The prohibitions in the final NAS provisions apply to audit clients²¹ that are PIEs (including listed

²¹ Extant paragraph R400.20 explains that: “...an audit client that is a listed entity includes all its related entities. For all other

- entities) and to their related entities in the same way as the extant provisions apply to such entities pursuant to [paragraph R400.20](#). Accordingly, consistent with the extant Code, the self-review threat prohibition applies to an audit client that is a PIE and certain related entities.
50. The IESBA considered how the self-review threat prohibition would interact with the long-standing exemption in the extant Code that allows for the provision of certain NAS that would otherwise be prohibited to specified related entities provided that certain conditions are met (see [extant paragraph R600.10](#)).
51. The IESBA determined that the exemption remained relevant to the provision of certain NAS to the entities identified and should, therefore, be retained (see paragraph R600.26). However, the revised NAS provisions include one revision to extant R600.10(iii). The words "...because the results of the services will not be subject to audit procedures..." have been deleted to reflect a conforming amendment arising from the IESBA's decision to introduce the self-review threat prohibition. The withdrawal of the term "...not subject to audit procedures..." reinforces the Board's position that materiality is not a deciding factor in determining whether the provision of a NAS to the above referenced related entities might create a self-review threat (subparagraph R600.26(iii)).
52. Therefore, under the revised NAS provisions, a firm or a network firm may provide certain NAS that would otherwise be prohibited to the following related entities once specified conditions are satisfied, including in particular, that no self-review threat is created:
- (a) An entity that has direct or indirect control over the client (i.e., parent entity);
 - (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 (i.e., a sister entity).
53. In relation to concerns that a firm might be asked to provide a NAS to a parent entity of a PIE audit client which in fact had the potential to impact downstream related entities, including the PIE audit client, the IESBA concluded that although the NAS might not be prohibited under the general prohibition in paragraph R600.16, the firm is required to evaluate the implications of providing that NAS under [extant paragraph R400.20](#). In addition:
- The requirements for firm communication with TCWG, as discussed later in this document, would provide TCWG of the PIE audit client with the opportunity to consider and address the implications of the provision of the proposed NAS to the parent entity.
 - A firm would be in breach of one of the five fundamental principles of ethics (i.e., [subsection 111, Integrity](#))²² if it accepted a NAS engagement which had been scoped to intentionally circumvent any requirement.
 - The provisions in [Section 270, Pressure to Breach the Fundamental Principles](#),²³ address

entities, references to audit client in this Part [4A of the Code] 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 [audit] 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."

²² The descriptions of four of the five fundamental principles of ethics, including integrity, were revised as part of the IESBA's Role and Mindset Expected of Professional Accountants project. That [final pronouncement](#) was released in October 2020 and will be effective as of December 31, 2021.

²³ Paragraph R300.5 explains that Part 2 of the Code (e.g., Section 270) may apply to professional accountants in public practice (PAPPs). PAPPs include auditors. [Installment 10, Pressure to Breach the Fundamental Principles](#) of IFAC's [Exploring the IESBA Code](#) publication series provides an overview of the provisions in the Code relating to pressure.

the situation where pressure might be exerted on individuals within a firm or network firm to accept an engagement to provide a NAS to a parent entity in such circumstances.

Applicability of NAS provisions to emerging services, including technology-related NAS

54. The IESBA noted the concern of some respondents that the general NAS provisions, including the self-review threat prohibition in the case of audit clients that are PIEs, might not apply to the provision of emerging NAS to an audit client, or when the methods of delivery reflecting advances in technology are not explicitly addressed in the Code. To address such concerns, the revised provisions emphasize that the conceptual framework and the general provisions in Section 600 apply when a firm provides a NAS for which there are no explicit provisions in the Code (see paragraph 600.5).
55. Further, in recognition of the fact that, due to technological advances, the provision of NAS may not be limited to a physical location or physical person, the proposals include a new factor —“the manner in which the NAS will be provided” (paragraph 600.9 A2).

Providing Advice and Recommendations

56. The position in the NAS ED in relation to the creation of a self-review threat through the provision of advice and recommendations remains unchanged (paragraph 600.11 A1).
57. In relation to comments made by respondents,
- The IESBA did not agree with the proposition that the Code’s restriction on assuming a management responsibility for an audit client alone is sufficient to address the self-review threats that might arise from the provision of advice and recommendations, especially in the case of audit clients that are PIEs. The revised provisions therefore explain that advice and recommendations to audit clients *might create a self-review threat to independence* [emphasis added]. In the case of an audit client that is a PIE, the prohibition in paragraph R600.16 would apply unless the advice or recommendation relates to information or matters arising in the course of an audit (see paragraph 600.11 A1).
 - The IESBA, resolved to provide an exemption to allow for the provision of advice and recommendations to audit clients that are PIEs in relation to information or matters arising in the course of an audit provided the following conditions set out in paragraph R600.17 are met:
 - The firm does not assume a management responsibility. For enhanced clarity a cross-reference to the relevant management responsibility provisions set out in paragraphs R400.13 to R400.14 has been added at paragraph R600.17.
 - The firm applies the conceptual framework to identify, evaluate and address threats, other than self-review threats.
58. In addition, examples of advice and recommendations that might be provided in relation to information or matters arising in the course of an audit have been provided in new application material. That application material is adapted from the examples of activity that might occur or arise as part of the dialogue between management and the firm during the course of an audit.²⁴

²⁴ In the extant Code and the NAS ED, these examples were included in subsection 601, *Accounting and Bookkeeping Services*. They have been repositioned to be closer to the exception for the provision of advice and recommendations in relation to information or matters arising from the audit (see paragraphs R600.17 and 600.17 A1).

Materiality

59. The IESBA reconfirmed its initial position with respect to materiality. Under the revised NAS provisions:
- (a) Materiality is not a factor to be taken into account when determining whether the provision of a NAS to a PIE audit client might create a self-review threat. The IESBA reached this conclusion for two reasons:
 - It believes that, in such circumstances, any self-review threat that might be created is not capable of being eliminated, and safeguards are not capable of being applied to reduce such a threat to an acceptable level.
 - The exclusion of the concept of materiality as a criterion when determining whether a NAS might create a self-review threat removes subjectivity and so increases consistency in application.
 - (b) To achieve consistency in application, qualifying terms such as “significant” or “insignificant” when defining how to determine a self-review threat have been removed. That is because the use of terms like “insignificant” contemplate a degree of subjectivity which could re-introduce the potential for inconsistent or inappropriate application.

B. Firm Communications with TCWG, Including Audit Committees

60. The IESBA is of the view that greater communication between audit firms and TCWG in relation to the types of NAS being provided and related fees will better position TCWG to have effective oversight of the independence of the firm that audits the financial statements. This is especially important in the case of PIEs. On that basis, the IESBA proposed new provisions in the NAS ED to strengthen firm communication with TCWG about NAS-specific matters that may bear on auditor independence. Among other matters, the IESBA proposed that firms should be required to obtain concurrence from TCWG before providing a NAS to an audit client that is a PIE.
61. The IESBA concluded that it would not be appropriate to extend the proposed requirements to communicate with TCWG to non-PIEs because the relevant circumstances and access to information are generally different than in the case of PIEs. For example, many non-PIEs do not have governance structures that include audit committees or the equivalent; many are owner-managed entities, so the individuals the firm would communicate with would be the same as those from whom they are receiving instructions.

Feedback from Respondents

62. Respondents generally supported the proposals to enhance firm communication with TCWG and provided several comments and drafting suggestions to improve the proposed text. The principal points raised included the following:
- The proposed NAS text should be more closely aligned to the corresponding provisions in some major jurisdictions, including the US SEC Rules and the EU Audit Regulation.
 - Where PIE audit clients form part of a complex corporate structure:
 - Regulatory respondents, including MG members as well as the PIOB, were concerned that the proposals would not be applicable to “parent undertakings” of PIE audit clients. Accordingly, they suggested that the IESBA consider expanding the proposal so that it applies to entities with control over PIE audit clients.
 - Some PAO and firm respondents expressed concerns about the practical implications of obtaining concurrence from TCWG of entities in private equity

complexes which are controlled by but not consolidated in the PIE audit client's group financial statements. They asked for additional guidance in relation to the application of the provisions in such circumstances and suggested that the IESBA consider the approach taken in the US SEC Rules and the EU Audit Regulation. Similar feedback was received on the Fees ED.

- More guidance was required to help firms navigate situations where the NAS information is incomplete or unavailable, or when the information received during the course of the NAS engagement or the engagement itself is confidential in nature (so that it would not be appropriate to share the information with TCWG of another entity).
- Concurrence from TCWG should be obtained only where the firm has concluded that the NAS is permitted under the Code.
- The IESBA should consider:
 - Providing guidance to help firms document how they obtained concurrence from TCWG. One respondent suggested that the concurrence should be obtained in writing.
 - Clarifying whether the firm should obtain concurrence for the provision of each NAS separately.
 - Incorporating a de minimis threshold so that consideration is given to: (i) inadvertent breaches similar to US SEC requirements; or (ii) bureaucracy and costs in relation to immaterial NAS.

IESBA Decisions

63. The primary objective of the requirement for firm communication with TCWG is to establish a mechanism whereby TCWG can corroborate the firm's evaluation of the impact of the proposed NAS to be provided to the parent entity (i.e., that such NAS will not create a threat to the firm's independence as auditor of the PIE, or that any threat created will be eliminated or reduced to an acceptable level).
64. The final NAS provisions expand on extant paragraphs 400.40 A1 to 400.40 A2 and ISA 600,²⁵ establishing new requirements and providing guidance for audit firms. In the case of an audit clients that is a PIE, a firm must communicate with TCWG about matters relating to the provision of NAS to that PIE or other entities within the corporate structure. The purpose of the communication is to enable TCWG of the PIE to have effective oversight of the firm that audits the financial statements of that PIE (see paragraph 600.20 A1).
65. Having considered the various viewpoints of stakeholders, as well as the input from the CAG and post-ED discussions with stakeholders, the IESBA redrafted the proposals related to firm communication with TCWG about NAS-related matters. The final provisions not only reflect a more principles-based approach responsive to the practical challenges raised by respondents, but also raise the bar in relation to NAS-related information provided to TCWG to help them better assess the firm's conclusions about its independence. The new approach is described below.

New Approach Accommodating Different Corporate Governance Structures

66. The final provisions retain the ED requirements for audit clients that are PIEs, and any entity that is controlled directly or indirectly by that PIE. However, the new approach allows for different

²⁵ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

corporate governance structures. It also allows firms and TCWG the flexibility to establish a pre-determined process provided that such process achieves the same outcome as the new requirements in paragraphs R600.21 to R600.22.

67. The IESBA considered whether there should be any constraints on the matters that may be addressed in any process agreed by a firm and TCWG of a PIE. It concluded that it was for TCWG to determine what was acceptable to enable them to discharge their governance responsibilities. Examples of arrangements that could be addressed in any such process include:
- To pre-approve specific categories of NAS for specified related entities where TCWG are satisfied that any threats to independence would be at an acceptable level;
 - To allocate responsibilities and any required reporting between TCWG of multiple PIEs within the same group; and
 - To provide monetary limits for delegated authority for specific approvals within pre-approved categories.

(See paragraph 600.20 A2 for detailed guidance about the process.)

68. The key elements of the approach are explained below.

**Required Firm Communication with TCWG – For Audit Clients that are PIEs
(paragraphs 600.20 A1 to R600.22)**

Unless otherwise addressed by a pre-determined process agreed between the firm and TCWG, the firm is required to:

- (a) Inform TCWG of the PIE that the firm has determined that the provision of the NAS is not prohibited and will not create a threat to the firm's independence, or that any identified threat is at an acceptable level.
- (b) Provide TCWG of the PIE with information to enable them to make an informed assessment about the impact of the provision of the NAS on the firm's independence.
- (c) Obtain concurrence from TCWG before providing a NAS to a PIE, any entity that controls that PIE, or any entity that is controlled directly or indirectly by that PIE.

69. The new requirement covers NAS that are to be provided to (i) the PIE; (ii) any entity that controls that PIE, directly or indirectly; or (iii) any entity that is controlled directly or indirectly by that PIE. The requirement applies whether it is the firm or a network firm that is proposing to provide a NAS to such entities. The revised provisions clarify that the communication must occur before the firm accepts the NAS engagement. It is not relevant whether: (i) the entity to which the proposed NAS is to be provided is a PIE; or (ii) the firm or a network firm is the auditor of that entity.
70. The requirement for a firm to communicate to TCWG of an audit client that is a PIE about NAS that is proposed to be provided to a parent entity (i.e., an entity that controls the PIE) is responsive to the feedback from respondents to the NAS ED. In finalizing the requirement, the IESBA:
- Acknowledged that the IESBA does not have authority to establish requirements for TCWG, nor can it: (i) require firms or network firms to share information that is otherwise not permitted by local law or regulation; or (ii) require firms or network firms to share information that is sensitive or confidential.
 - Determined that before disclosing information to TCWG of the PIE about a NAS to be

provided to a parent entity (whether such entity is listed or unlisted), the firm should obtain permission from that parent entity.

- Determined that the firm should be required to inform TCWG of the PIE that the firm has determined that the provision of the NAS to the parent entity will not create a threat to the firm's independence as auditor of the PIE, or that any threat created will be eliminated or reduced to an acceptable level.

71. The IESBA envisages that many of the practical challenges raised by respondents will be addressed by the firm agreeing a process with TCWG as described in paragraph 600.20 A2.

Exemption to Accommodate Restrictions in Professional Standards, Laws and Regulations (paragraph R600.23)

Where a firm is prohibited from providing information about a proposed NAS to TCWG of the PIE, or where the provision of such information would result in disclosure of sensitive or confidential information, the firm may provide the proposed NAS if:

- (a) The firm provides such information as it is able without breaching its legal or professional obligations;
- (b) The firm informs TCWG of the PIE that the provision of the NAS will not create a threat to the firm's independence, or that any identified threat is at an acceptable level; and
- (c) TCWG do not disagree with the firm's conclusion about the impact of the proposed NAS on the firm's independence.

72. The IESBA noted that in some circumstances the firm's ability to communicate relevant information to TCWG of the PIE about a NAS to be provided to a parent entity may be restricted by professional standards, laws or regulations or may involve sensitive or confidential information that should not be disclosed. The IESBA determined that the firm can provide the proposed service provided that it is able to confirm that provision of the proposed NAS would not adversely affect the firm's independence as auditor of the PIE and that TCWG do not disagree with that conclusion.

Matters that Might Affect Accepting the NAS Engagement or Continuing the Audit Engagement

73. Having considered matters raised by TCWG of the audit client that is a PIE or by the entity that is the recipient of the proposed NAS (which could be an entity that controls that PIE, or an entity that is controlled by that PIE), under paragraph R600.24 of the final provisions, the firm or the network firm is required to either decline the NAS engagement, or the firm is required to end the audit engagement, if:

- (a) The firm or network firm is not permitted to provide any information to TCWG of the client that is a PIE unless such a situation is addressed in a process agreed in advance with TCWG; or
- (b) TCWG of the audit client that is a PIE disagree with the firm's conclusion that the provision of the NAS will not create a threat to the firm's independence from the client, or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.

74. The IESBA deliberated whether it is in the public interest to allow a firm to have the option to end the audit engagement in situations where TCWG are unable to assess or disagree with the firm's conclusions with respect to the impact of a proposed NAS on auditor independence. There was

a concern that a firm might opt for a relationship which is commercially more beneficial at the expense of prioritizing a public interest need of carrying out the audit.

75. The IESBA determined that it is reasonable and appropriate to reflect that option in the final NAS provisions in paragraph R600.24 because:
- The decision to end an audit engagement or decline a proposed NAS often involves input or authorization from TCWG, management of the PIE, or the parent entity. That decision is not made solely by the firm.
 - In circumstances that involve a network firm, the firm undertaking the audit of the PIE may not have the authority to require the network firm to decline the proposed NAS.
 - The approach is consistent with the overarching requirement for addressing threats in the conceptual framework.
76. The IESBA noted that the following public interest considerations might be relevant in deciding whether to end an audit engagement:
- The interests of the audit client's non-controlling shareholders.
 - Reputational damage to the audit client.
 - Any timing, legal or regulatory constraints in finding a new auditor with the appropriate qualifications, expertise, and experience.

De minimis Threshold

77. The IESBA determined that the provisions in extant R400.80 to R400.89 are appropriate to address inadvertent breaches arising from the application of the new requirements for firm communication with TCWG about NAS-related matters. Therefore, a de minimis threshold, as suggested by various respondents, was not required.

C. Appropriateness of NAS Safeguards

78. Within the subsections of Section 600, the NAS ED retained the extant examples of actions that might be safeguards to address specific categories of threats to independence that might be created by providing a NAS to an audit client.
79. Adapted from the material in the extant Code, two new application material paragraphs were included in the NAS ED to provide examples of actions that might be safeguards to address threats to independence more generally (see paragraphs ED-600.16 A3 and ED-600.16 A4).

Feedback from Respondents

80. Some regulatory respondents questioned the adequacy of NAS safeguards that:
- Used professionals who are not audit team members to perform the NAS.
 - Relied on an appropriate reviewer who was not involved in providing the service review the audit work or the NAS performed.
81. Their concern was that there might be an inherent "conflict of interest" because "the professional may be incentivized to make judgements that protect the economics and other interests of the firm rather than the public interest and needs of investors."²⁶ It was suggested that IESBA consider replacing the NAS safeguards with the following actions that are relevant when a NAS

²⁶ IOSCO

is provided to an audit client that later becomes a PIE:

- Recommending that the audit client engage another firm to review or re-perform the affected audit work to the extent necessary.
- Engaging another firm to evaluate the results of the NAS or having another firm re-perform the NAS to the extent necessary to enable the other firm to take responsibility for the service.

IESBA Decisions

82. The IESBA is of the view that the suggested “conflict in interest” would not necessarily be avoided if the audit firm arranges for the review of the audit work to be undertaken by a professional from another firm because of the potential for a relationship between that professional and the firm. The IESBA also noted that a parallel exists under the IAASB’s [quality management standards](#) in that firms already source individuals internally as engagement quality reviewers to perform objective reviews of specified audit engagements for audit quality purposes.
83. Further, the final NAS provisions build on the concepts already established in the extant Code which incorporates safeguard-related enhancements. In finalizing its Safeguards project in 2017, the IESBA extensively deliberated the adequacy of NAS safeguards to address stakeholder concerns about such adequacy. These changes are reflected in the extant Code which came into effect in June 2019 and include:
- Explicit language which clarifies the importance of proper application of the conceptual framework to determine whether a safeguard is available and capable of addressing a threat to independence. New application material explains that in some circumstances, safeguards might not be available and that in some situations the threat to independence might necessitate the firm declining the NAS or ending the audit engagement.
 - A new description of safeguards which clarifies that an action is a safeguard only when it is effective in reducing a threat to an acceptable level.
 - New application material that explains that an “appropriate reviewer” is an individual who has the (i) authority and (ii) knowledge, skills and experience to review work in an objective²⁷ manner and that that individual may be external to the firm or employed by the firm.
84. The IESBA determined that the removal of the NAS safeguards would not be in the public interest. Under the revised NAS provisions:
- In the case of audit clients that are PIEs, the introduction of the self-review threat prohibition and the additional restrictions on the provision of NAS that might create an advocacy threat (e.g., when acting as witness) will reduce the types of NAS in respect of which a firm may be permitted to apply safeguards to reduce threats to independence to an acceptable level.
 - In the case of audit clients that are non-PIEs, the IESBA determined that the NAS safeguards should be retained because they are capable of addressing actual and

²⁷ The newly established Section 325, [Objectivity of an Engagement Quality Reviewer and Other Appropriate Reviewers](#) provides new guidance that is relevant in evaluating threats to the objectivity of an appropriate reviewer, including:

- The role and seniority of the individual.
- The nature of the individual’s relationship with others involved on the engagement.
- The nature and complexity of issues that required significant judgment from the individual in any previous involvement in the engagement.

perceived threats to independence. In addition, withdrawing them would have significant adverse consequences for audits of non-PIEs (e.g., increased costs and additional complexities that might arise if the audit firm is required to engage another firm to review the outcome or result of the NAS). In evaluating the effect on the public interest, it is relevant to take account of the economic significance of enabling growth of SMEs, rather than increasing their regulatory burdens.

D. Documentation

85. The NAS ED did not include specific proposals relating to documentation because the IESBA was of the view that the general documentation provisions for independence in [extant paragraphs R400.60 to 400.60 A1](#) would be sufficient.

Feedback from Respondents

86. Several respondents to the ED suggested that the IESBA should provide guidance to explain whether, and if so how, firms are to document compliance with the new NAS provisions, especially in relation to those provisions relating to the self-review threat prohibition for PIE audit clients and the requirement to obtain concurrence from TCWG before providing a NAS to such clients.

IESBA Decision

87. The final NAS provisions include new application material to help firms document conclusions regarding compliance with the NAS provisions of the Code (see paragraph 600.27 A1). The application material supplements the documentation provisions in extant R400.60 to 400.60 A1.

E. Revisions to the Specific Provisions in Subsections 601 to 610

88. The requirements and application material in the revisions to subsections 601 to 610 follow a consistent structure as well as the drafting conventions for the revised and restructured Code. Respondents to the NAS ED generally supported the proposals to improve the placement of the provisions in the subsections and the refinements made to: (i) reinforce the need to apply the relevant general NAS provisions in applying the provisions in the subsections; (ii) improve the description of the NAS covered in the subsections; and (iii) expand on guidance relating to potential threats arising from each NAS.
89. The revisions to the subsections build on the general provisions in paragraphs 600.1 to 600.27 A1. The IESBA has avoided the duplication of material except in limited instances where it deemed such repetition necessary to enhance clarity or provide emphasis. Examples of situations when material is repeated include the following:
- A statement has been added to the “factors paragraphs” within the subsections reminding readers that the self-review threat prohibition applies if a self-review threat is identified in relation to a NAS to be provided to a PIE (see paragraphs 603.3 A2, 604.12 A3, 604.22 A1, 607.4 A1 and 610.4 A1).
 - Refinements have been made to the introductory language of the “factors paragraphs” to clarify when factors are relevant to: (i) identifying and evaluating threats to independence; (ii) identifying threats only; or (iii) evaluating threats only.
90. Editorial refinements and conforming changes have been made to the provisions in subsections 601 to 610 to align them to the revisions made to the general NAS provisions in paragraphs 600.1 to 600.27 A1 as appropriate. Accordingly, the rationale for many of the substantive revisions to the subsections is as explained above. Below is a summary of the remaining noteworthy

comments raised on the proposed subsections in the ED and the revisions made to address them.

Accounting and Bookkeeping Services – Subsection 601

91. The NAS ED noted that the provision of accounting and bookkeeping services to an audit client creates a self-review threat when the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion. The NAS ED also included proposals to:
- (a) Clarify accounting and bookkeeping services that form part of the audit process;
 - (b) Withdraw the exemption in [extant paragraph R601.7](#) that allowed for firms and network firms to provide accounting and bookkeeping services to divisions and related entities of audit clients that are PIEs provided certain conditions are met; and
 - (c) Prohibit the provision of technical assistance on accounting-related matters, such as resolving accounting reconciliation problems.

Feedback from Respondents

92. Respondents generally supported the proposals and provided several drafting suggestions and comments to improve the proposed text.
93. With respect to the proposal to withdraw the exemption in [extant paragraph R601.7](#), respondents were generally supportive. Additionally:
- (a) The few respondents who did not support the proposal pointed out that the exemption relates to NAS with outcomes or results that are collectively immaterial.
 - (b) It was suggested that the Code include an exemption to allow for firms to prepare certain statutory financial statements that are based on client-approved information that is not consolidated as part of the PIE's group financial statements.
94. Several respondents commented on the term "routine or mechanical". Some respondents:
- Expressed concerns with the inclusion of "preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records" as an example of an accounting and bookkeeping service that is routine or mechanical in nature. They pointed out that preparing financial statements and disclosures always involves the exercise of professional judgment and therefore should not be considered "routine or mechanical" in any circumstances.
 - Noted that routine or mechanical tasks can be both manual in nature as well as automated and that mere automation does not reduce identified threats to independence associated with that task to an acceptable level. It was pointed out that additional information about the nature of the task is needed to determine whether an automated task is in fact "routine or mechanical." For example, it was suggested that the firm might consider whether the task requires little or no judgment, or if judgment is based on client-defined criteria.
 - Commented that the term "routine and mechanical" is not applied in a consistent manner in practice and suggested that the IESBA consider clarifying it as part of the NAS project.
95. Finally, some respondents questioned whether there are circumstances in which the provision of technical advice on accounting issues, including the conversion of existing financial statements from one financial reporting framework to another, would be permitted under the revised NAS provisions.

IESBA Decisions

96. The revised NAS provisions retain many of the initial proposals. However, several clarifications have been made to further strengthen the restriction on the provision of accounting and bookkeeping services to audit clients that are PIEs. In particular, with respect to the self-review threat prohibition on the provision of accounting and bookkeeping services, the words “when the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion” have been deleted (see paragraph R601.6).

Exemption to prepare statutory financial statements for a related entity of a PIE

97. Responsive to some respondents’ suggestions, the final NAS provisions include an exemption to address specific and practical issues. That exemption will permit a firm or a network firm to prepare statutory financial statements for certain related entities of an audit client that is a PIE when the following conditions are met (see paragraph R601.7):
- (a) The audit report on the group financial statements of the PIE has been issued;
 - (b) The firm or network firm does not assume management responsibility and applies the conceptual framework to identify, evaluate and address threats to independence;
 - (c) The firm or network firm does not prepare the accounting records underlying the statutory financial statements of the related entity and those financial statements are based on client approved information; and
 - (d) The statutory financial statements of the related entity will not form the basis of future group financial statements of that PIE.
98. The exemption is intended to accommodate situations in which a PIE audit client has entities that are located in different jurisdictions across the world,²⁸ and a local regulator requires the issuance of financial statements that are prepared in accordance with the applicable legislation or regulation. In such situations, the basis of accounting in that local jurisdiction is typically different from the basis of accounting in the jurisdiction where the PIE audit client filed its audited consolidated financial statements. The IESBA resolved to provide an exemption to allow the firm or a network firm to assist in the preparation of the local statutory financial statements for these entities provided that all the strict conditions are met.
99. The IESBA determined that the preparation of statutory financial statements as set out in the exemption in paragraph R601.7 would not constitute a management responsibility because the firm would be required to use client-approved and client-prepared accounting records in preparing those statutory financial statements.

Clarifications to explain “routine or mechanical”

100. The IESBA agrees with respondents who emphasized the importance of exercising professional judgment in identifying and evaluating the level of threats to independence created when a task is performed by manual versus automated means. Section 120 includes provisions to help the exercise of professional judgment when applying the conceptual framework. Such provisions explain the importance of understanding the facts and circumstances, which in this context would

²⁸ In particular, the exemption in paragraph R601.7 allows for the Code to take a similar approach to US SEC independence requirements, which contain an analogous exemption to US SEC [Rule 2-01 of Regulation S-X](#), [SEC Release \(2003\) - Strengthening the Commission's Requirements Regarding Auditor Independence](#). That US SEC exemption allows for the preparation of statutory financial statements of affiliate foreign companies as long as the accountant's independence is not impaired, and those statements do not form the basis of the financial statements that are filed with the SEC.

involve the nature of the task.

101. Building on that premise, the IESBA refined its initial proposals to incorporate some of the respondents' suggestions to better explain "routine or mechanical" accounting and bookkeeping services. The revised application material in paragraph 601.5 A1 explains that accounting and bookkeeping services that are routine or mechanical:
- (a) Involve information, data or material in relation to which the client has made any judgments or decisions that might be necessary; and
 - (b) Require little or no professional judgement.
102. In finalizing the NAS project, the IESBA considered:
- Whether the placement of the revised application material for "routine or mechanical" was appropriate. In particular, it was noted that any of the NAS topics covered in subsections 601 to 610 might be routine or mechanical in nature.
 - Whether to include guidance to help firms better identify and evaluate threats to independence that might arise when the audit firm or a member of its network has a role in designing or developing the underlying technology used to automate the task.
103. The IESBA concluded that consideration of the above questions and other suggestions related to further modernizing the NAS provisions with respect to technology should be addressed in the longer-term as part of the IESBA's Technology project. In the shorter term, the IESBA will explore the merit of developing or commissioning the development of "off-Code guidance" in the form of staff publications and other non-authoritative material (NAM). The objective of such NAM will be to highlight important technology-related considerations that might be relevant in applying the revised NAS provisions.

Assisting audit clients, including converting financial statements to a different framework

104. As discussed above, the revisions to the general section of the NAS provisions include application material addressing the fact that the provision of advice and recommendations to an audit client might create a self-review threat and that in the case of an audit client that is a PIE, such assistance is prohibited (see paragraph 600.11 A1).
105. However, the final NAS provisions include an exemption to the self-review threat prohibition in relation to information or matters arising in the course of an audit (see paragraph R600.17). It also includes new application material with examples of permissible activities, including advising on accounting and financial reporting standards or policies and financial statement disclosures and discussing how to resolve account reconciliation problems.

Valuation Services – Subsection 603

106. The NAS ED included a proposal for firms and network firms to consider "the extent to which the valuation methodology is supported by law or regulation, other precedent or established practice" as a factor for evaluating a threat created by providing a valuation service. Although some respondents questioned whether this was an appropriate factor, the IESBA believes it is a valid consideration in evaluating the threat level. As most respondents supported the inclusion of that factor, the IESBA resolved to retain it.

Other Feedback from Respondents

107. A few respondents pointed out that provision of valuation services is similar to provision of accounting and bookkeeping services in that the results or outcome could directly impact the

accounting records of an audit client. These respondents suggested that the IESBA consider making the self-review threat prohibition for valuation services an outright prohibition similar to the proposed approach for accounting and bookkeeping services.

IESBA Decision

108. The IESBA determined there are instances of simple straightforward valuations supported by law or regulation, other precedent or established practice that do not create a self-review threat. The IESBA, therefore, did not adopt the suggestion made.

Tax Services – Subsection 604

109. The NAS ED included:

- A new general prohibition on the provision of a tax service or recommending a transaction if the service or transaction relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended by the firm or network firm, and a significant purpose of the tax treatment is tax avoidance unless that treatment has a basis in applicable tax law and regulation that is *likely to prevail* [emphasis added].²⁹
- New application material outlining the specific circumstances in which the provision of tax advisory and tax planning services will not create a self-review threat.³⁰

Feedback from Respondents

110. Respondents generally supported the proposed revisions to the tax services section of the Code. However, many respondents commented on the use of the term “likely to prevail”, noting that in their view it was subjective and unclear. Those respondents suggested:

- Replacing the term with “more likely than not” because of its use in accounting literature and in the analogous PCAOB Rule 3522.
- Specifying the meaning of the threshold “more likely to prevail.” Those respondents noted that the meaning of the threshold “more likely than not” is prescribed and generally well understood in practice because it is used in US tax law and the International Accounting Standards Board’s (IASB’s) standards.
- Limiting the provision to PIEs. There was a concern that audit clients that are non-PIEs may not have access to the resources that PIE entities have, and that there is a public interest merit to allowing non-PIEs the flexibility to turn to their auditor for tax and other advice and recommendations.
- Believed that the term “tax avoidance” is unclear and ambiguous. They pointed out that there is no globally accepted definition and wondered whether the issue of tax avoidance might be best dealt with either at the jurisdictional level by regulators, PAOs or NSS, or as part of the IESBA’s [Tax Planning and Related Services initiative](#).

²⁹ The proposed requirement was adapted from the [US PCAOB’s Rule 3522](#). The IESBA replaced the PCAOB phrase “... treatment is at least more likely than not to be allowable under applicable tax laws...” with the phrase “...treatment has a basis in applicable tax law and regulation that is likely to prevail.”

³⁰ The NAS ED stated that “providing tax advisory and tax planning services, will not create a self-review threat if such services:

- (a) Are supported by a tax authority or other precedent;
- (b) Are based on an established practice (being a practice that has been commonly used over a long period and has not been challenged by the relevant tax authority); or
- (c) Have a basis in tax law that is likely to prevail.”

IESBA Decisions

“Likely to prevail” versus “more likely than not”

111. The IESBA considered the views expressed by respondents as to the relative merits of the terms “more likely than not” and “likely to prevail.” The IESBA sought additional input from stakeholders, including certain regulators and the Forum of Firms and ultimately determined that the term “likely to prevail” should be retained. In addition, further clarifications were made to the NAS provisions to ensure that the threshold to be met is appropriately robust. The revised provisions state “... unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail” (see paragraphs R604.4, 604.4 A1 and 604.12 A2).
112. The IESBA is of the view that its approach helps preserve extant language that is already well understood at the global level and therefore translatable. The IESBA noted that the PIOB had expressed the view that the term “more likely than not” is perceived as being too low a threshold. The inclusion of the words “is confident” is intended to clarify the IESBA’s expectations without using “terms of art” which may be well understood in some jurisdictions but unclear in others.
113. The IESBA envisages that a firm may choose to document, in situations that are not apparent, the factors considered in determining its confidence that the proposed treatment has a basis in applicable tax law and regulation that is likely to prevail.

Scope of the general tax prohibition

114. The IESBA determined that the revised provisions allow sufficient flexibility for audit clients that are non-PIEs. With respect to the general tax prohibition, the IESBA reaffirmed and clarified its position. Stated simply, the new requirement prohibits the provision of tax services or transactions that involve “advocating”³¹ a particular tax treatment or transaction that the firm had initially developed for which the significant purpose is tax avoidance.
115. The prohibition is not intended to:
- Introduce a blanket prohibition on all tax services.
 - Address the broader public debate about the provision of tax advice, tax treatments or tax transactions for the purpose of tax minimization. This issue is being considered as part of the IESBA’s Tax Planning and Related Services initiative.

Use of the term “tax avoidance”

116. The term “tax avoidance” appears to be generally used and well-understood in professional standards (e.g., the term is currently used in PCAOB Rule 3522). The IESBA is of the view that local regulators, PAOs and NSS are well-positioned to provide additional guidance based on local tax law or regulation as appropriate to help address concerns about potential misunderstanding and inconsistent application of the term. The term has therefore been retained in the final NAS provisions.

Tax advice that is dependent on accounting treatment

117. The IESBA considered respondents’ suggestions that the prohibition in paragraph R604.13 (and R610.6) should be limited to PIE audit clients and should not be extended to non-PIE audit clients. It determined that the prohibition should apply to all audit clients because it would be inappropriate for a firm to facilitate tax advice provided by the firm by accepting an accounting

³¹ The word “advocating” is not used in paragraph R604.4. That paragraph states “marketing, planning, or opining in favor of a tax treatment that was initially recommended ... by the firm or network firm.”

treatment with which it was not satisfied.

Internal Audit Services – Subsection 605

118. The NAS ED included a proposal to replace extant language “...preferably within senior management...” with “... who reports to those charged with governance...” to highlight an example of who the client might designate to be responsible for internal audit activities, and to acknowledge who shoulders the responsibility for designing, implementing, monitoring and maintaining internal controls.

Feedback from Respondents

119. A respondent suggested that the IESBA consider inclusion of a reference to the Institute of Internal Auditors’ (IIA) definition of internal auditing³² in subsection 605.
120. A concern was also expressed that the extant phrase “preferably within senior management” should be avoided because of actual and perceived risks that senior management lacks objectivity/independence with respect to the internal audit function. It was suggested that the term be replaced with “an individual who is independent of senior management.”

IESBA Decisions

121. The longstanding description of internal audit services has been retained. It is well accepted that the scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of TCWG as well as the needs and expectations of management. This is acknowledged in the Code’s description of internal audit services (see paragraph 605.2 A1). The IESBA is of the view that it will be up to TCWG and management of the entity to decide and ensure that they are upholding the concepts in the IIA’s definition of internal auditing when designing its internal audit plan.
122. The IESBA has retained the language in the NAS ED, thereby avoiding the use of “preferably within senior management” (see paragraph R605.3).

Information Technology System Services – Subsection 606

Feedback from Respondents

123. Two regulatory respondents questioned the appropriateness of the words “not significant” which were used in the proposed subsection 606 of the ED to describe the threshold for the permissibility of a NAS involving customization of off-the-shelf accounting or financial reporting software that was not developed by the firm or a network firm.

IESBA Decision

124. The term “not significant” which is used throughout the Code has been retained. The IESBA considered whether to include new application material to explain the intended meaning of “not significant” in the context of providing a NAS that involves the customization of off-the shelf accounting or financial reporting software. It also considered whether the circumstances in which a firm or network firm may be allowed to provide IT systems services relating to the implementation of “off-the-shelf” accounting or financial reporting information software should be

³² The IIA defines internal auditing as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.”

further narrowed.

125. As these considerations also involve consideration of technology innovations, the IESBA determined that it would be appropriate for them to be addressed in the course of the Technology project.

Litigation Support Services – Subsection 607

126. The NAS ED included new provisions relating to acting as an expert witness, including a requirement prohibiting a firm or a network firm from acting as an expert witness in a dispute involving an audit client that is a PIE unless the individual is appointed by a court or tribunal. The ED also incorporated a revision to explicitly include “forensic or investigative services” as part of the general description of litigation support services. Finally, the word “public” was removed before the words “court” and “tribunal” in an effort to better acknowledge that an advocacy threat arises irrespective of whether a dispute is heard in private or in public.

Feedback from Respondents

127. A few respondents suggested that the IESBA consider adding an exception to allow for a firm, network firm or individual within a firm or network firm to be engaged to advise or act as an expert witness in relation to a class action suit. By way of example, the respondents pointed to the approach taken in the [AICPA's relevant interpretative guidance](#).
128. A few respondents disagreed with the exception to allow a firm to act as an expert witness in a matter involving a PIE audit client even if appointed by a tribunal or court. Those respondents did not believe that the advocacy threat would be eliminated even if the firm or individual is appointed by a tribunal or court.

IESBA Decisions

Acting as an expert witness

129. The revised NAS provisions provide greater clarity on the circumstances in which a firm may act as a witness.
130. Generally, in the case of audit clients that are PIEs, acting as an expert witness is prohibited. Responsive to respondents' feedback, the final provisions provide examples of circumstances in which an advocacy threat created when acting as an expert witness on behalf of an audit client is at an acceptable level. These include (see paragraph 607.7 A3):
- (a) Where a firm or a network firm is appointed by a tribunal or court to act as an expert witness in a matter involving a client; or
 - (b) Where a firm or a network firm is engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided that:
 - (i) The firm's audit clients constitute less than 20% of the members of the class or group (in number and in value);
 - (ii) No audit client is designated to lead the class or group; and
 - (iii) No audit client is authorized by the class or group to determine the nature and scope of the services to be provided by the firm or the terms on which such services are to be provided.
131. The IESBA considered whether it was appropriate to include in a principles-based Code a strict threshold that can result in outcomes that some may regard as inappropriate. A hypothetical

example is where the 20% threshold is exceeded, triggering a prohibition on acting in relation to a class action, even though the firm's PIE audit clients constituted as little as 1% over the total threshold.

132. The IESBA is of the view that the potential outcome arising from the hypothetical situation described above is the consequence of having a fixed threshold, which in theory represents the point at which the threat to independence becomes unacceptable and safeguards cannot be applied.

Court appointment

133. When a firm is appointed by a court or tribunal to act as an expert witness in a matter involving an audit client, the witness owes a duty to the "court" and not to the audit client. The IESBA has therefore maintained the approach set out the NAS ED (see paragraph 607.7 A3(a)).

Legal Services – Subsection 608

134. The NAS ED included refinements to clarify the provisions in the Subsection that deal with providing legal advice, acting as general counsel, and acting in an advocacy role. The final NAS provisions retain these refinements.
135. In addition, the final provisions include new application material to address the risk that "negotiating on behalf of an audit client might create an advocacy threat or might result in the firm or network firm assuming a management responsibility" (see paragraph 608.5 A3).

Recruiting Services – Subsection 609

136. Although the NAS ED did not include substantive revisions to subsection 609, some respondents suggested that the IESBA consider further tightening the restrictions for providing recruiting services. Accordingly, revisions to the extant Code prohibit, in relation to the appointment of a person to the role of director or officer of the audit client, or as a member of senior management in a position to exert influence (see paragraph R609.6):
- (a) Recommending the person to be appointed; and
 - (b) Advising on the terms of employment, remuneration or related benefits of a particular candidate.

The latter bullet focusses on the provision of advice in relation to the arrangements for the employment of a particular candidate. It does not preclude the provision of general information to assist clients to determine the arrangements to be offered.

137. The IESBA determined that these services create threats to independence that cannot be eliminated or reduced to an acceptable level by applying safeguards. Therefore, they are prohibited for all audit clients.

Corporate Finance Services – Subsection 610

138. Responsive to the respondents' feedback, the following revisions were made to Subsection 610:
- The revised NAS provisions do not include "performing due diligence in relation to potential acquisitions and disposals" in paragraph 610.2 A1.
 - Clarifications have been made to the prohibition on providing corporate finance services that involve promoting, dealing in, or underwriting shares, debt, or other financial instruments issued by the audit client (see paragraph R610.5). The revised provisions expressly provide that the prohibition applies to the provision of advice on investment in

such shares, debt or other financial instruments.

- The revised provisions withdraw the need for firms to consider “...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” in evaluating threats to independence (see paragraph 610.4 A1). This is because the provision of corporate finance services in such circumstances is prohibited by paragraph R610.6 given the self-review threat.

IV. Conforming and Consequential Amendments

139. The revised NAS provisions include conforming and consequential revisions to Sections 400, 900 and 950 of the Code. Except for the most substantive matters discussed below, the final conforming and consequential amendments have been updated to reflect respondents’ drafting suggestions and other changes that the IESBA deemed necessary to align the extant Code to the final NAS provisions.
140. The final NAS provisions retain revisions that were made to reposition the provisions relating to assuming a management responsibility from Section 600 to Section 400. These changes ensure that the prohibition on assuming management responsibilities for an audit client applies generally across the IIS, and not only in the case of providing a NAS to an audit client. Similar changes were made to the relevant provisions in Sections 950 and 900.
141. Although it was not included in the NAS ED, Section 525, *Temporary Assignments* reflects clarifications to the extant prohibition on loan of firm personnel to an audit client (see paragraph 525.4).

A. Matters Relevant to Section 400

Period During Which Independence is Required

142. In light of the self-review threat prohibition, the NAS ED included revisions to prohibit a firm from accepting an appointment as auditor of a PIE to which the firm or network firm has provided a NAS prior to such appointment that would create a self-review threat unless the provision of such NAS has ceased and other prescribed conditions are met.

Feedback from Respondents

143. Respondents were generally supportive, but some:
- Questioned the practicality of always engaging an external party to take responsibility for the NAS engagement.
 - Commented that certain services provided in a previous year will always impair an audit firm’s ability to accept the appointment (i.e., designing or implementing internal control or risk management procedures, or a financial information technology system) and that the firm should be required to perform an assessment of the threats and whether they are acceptable in the view of an objective, reasonable and informed third party.
 - Suggested that the proposal would be more precise if it were broken into two: (i) NAS provided in the same period that the audit is being undertaken; and (ii) NAS provided in prior years and where another firm has audited those financial years.

IESBA Decisions

144. The revised NAS provisions incorporate the input of several respondents who provided comments and drafting suggestions to improve the NAS text. Key revisions include:

- For all audit clients
 - Restructuring of the provisions in paragraphs R400.31 to 400.31 A4.
 - New application material to highlight the importance of considering whether the results of the NAS provided might form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion when evaluating any threats (see paragraph 400.31 A2).
 - New application material to explain that a threat to independence created by the provision of a NAS by a firm or a network firm prior to the audit engagement period or prior to the period covered by the financial statements on which the firm will express an opinion is eliminated or reduced to an acceptable level if the results of such NAS have been used or implemented in a period audited by another firm (see paragraph 400.31 A4).
- For audit clients that are PIEs
 - Paragraph R400.32 prohibits a firm from accepting an appointment as auditor of a PIE to which the firm or network firm has provided a NAS prior to such appointment that might create a self-review threat, unless the following conditions are met:
 - (a) The provision of the NAS ceases before the commencement of the audit engagement period;
 - (b) The firm addresses any threats to independence; and
 - (c) The firm determines that, in view of a reasonable and informed third party, any threats to independence have been or will be eliminated or reduced to an acceptable level.
 - The new application material in paragraph 400.32 A1 provides examples of actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of NAS to a PIE prior to appointment as auditor of that entity. This new application material is intended to address the practical challenges that might arise from having to engage a third-party reviewer.

B. Matters Relevant to Section 950

145. The IESBA has retained the alignment between the NAS provisions that apply for audit and review engagements in Section 600 and those that apply for assurance engagements other than audits and reviews in Section 950. As noted in section I above, the revisions to Section 950 are to Revised Part 4B that were released in January 2020. The effective date for the NAS-related changes to Revised Part 4B is set out in section V below.

146. Except for the proposal to reposition the provisions relating to assuming a management responsibility for an audit client from Section 950 to 900, the only substantive consequential revision to Section 950 is to explain the circumstances in which the public's expectations about a firm's independence are heightened in relation to undertaking an assurance engagement for an audit client that is a PIE (see paragraph 950.11 A1).

Feedback from Respondents

147. While most respondents expressed support for the proposed revisions to Section 950, a few comments were raised, including the following:

- On one hand, some respondents suggested that the IESBA consider strengthening the provisions that apply when firms provide a NAS to an assurance client that is a PIE. On the other hand, another respondent did not agree that it would be appropriate to consider the provision of an assurance engagement to a PIE in a broader public interest context.
- There was a concern that disclosing information about the existence of a self-review threat might confuse intended users and cause unnecessary questions about the independence of the firm and the validity of the assurance report.

IESBA Decisions

148. The IESBA reaffirmed the approach taken in the NAS ED and retained the new application material which explains expectations about a firm's independence in relation to undertaking an assurance engagement for an audit client that is a PIE. To enhance the clarity of the application material relating to disclosure of the self-review threat and to mitigate the risk of confusion, the IESBA has amended paragraph 950.11 A2 to indicate to whom disclosure should be made (e.g., the party engaging the firm or TCWG).

V. Effective Date and Transitional Provision

149. Some respondents to the ED called for a period of stability, particularly given the efforts to implement the newly enhanced conceptual framework after the revised and restructured Code became effective in June 2019.

150. As explained in section II of this document, respondents from a range of stakeholder groups suggested that the IESBA reconsider its work plan and, in particular, the timeline for the NAS project on a number of grounds including:

- The PIE project and the resultant uncertainty as to the entities to which the NAS provisions will apply;
- The scale and pace of changes to the Code in recent years;
- The effects of the COVID-19 pandemic; and
- The benefits of awaiting the output from the Technology project.

IESBA Decisions

151. In determining the effective date for the revised NAS provisions, the IESBA sought advice from its CAG and had further discussions with stakeholders, including regulators, audit oversight authorities, NSS and firms. The IESBA sought to balance (i) the public interest benefit of having strengthened IIS reinforced with the revisions arising from the NAS and Fees projects take effect as soon as practicable, and (ii) the need for a sufficient period to enable awareness of the revisions to be promoted, and for adoption, and implementation at firm and jurisdiction levels to take place. In this regard, the IESBA has committed to undertake various rollout activities to promote such awareness raising and adoption efforts.

152. In undertaking the NAS, Fees, and PIE projects, the IESBA had recognized the merits of coordinating the effective dates of the revisions arising from the three projects and to provide an appropriate transition for the adoption and implementation of the three sets of revisions. While some stakeholders advocated the merits of aligning the effective dates for all three projects, the

IESBA concluded that it would not be practicable for the effective date of the changes arising from the PIE project to be fully aligned with the effective dates of the changes arising from the NAS and Fees projects. This is because, in view of the broad approach taken to the revision of the PIE definition in the Code in the PIE ED, regulators, NSS or other relevant local bodies will need time to refine the revised PIE definition to their local context as part of the adoption process. The IESBA was also mindful that a significantly extended period before the strengthened provisions arising from the NAS and Fees projects come into effect would not be in the public interest.

153. The IESBA also noted that regardless of the changes arising from the PIE project, the aim of the NAS project in relation to PIE audit clients is to enhance stakeholder confidence in auditor independence. For the relevant provisions, the IESBA's focus has been on the principles (and requirements) that should apply to audits of PIEs (however defined) as compared to audits of non-PIEs.
154. Accordingly, the IESBA determined that the effective dates of the revised NAS provisions should be as follows:
 - Revised Section 600 and the conforming amendments to Part 4A should be effective for audits and reviews of financial statements for periods beginning on or after December 15, 2022.
 - The conforming and consequential amendments to Sections 900 and 950 in relation to assurance engagements with respect to underlying subject matters covering periods of time should be effective for periods beginning on or after December 15, 2022; otherwise, effective as of December 15, 2022.

Early adoption will be permitted.

155. The IESBA also considered how firms should transition to the revised NAS provisions. For NAS engagements a firm or network firm has entered into with an audit client, or for NAS engagements a firm has entered into with an assurance client, before December 15, 2022 and for which work has already commenced, the firm or network firm may continue such engagements under the extant provisions of the Code until completed in accordance with the original engagement terms.

The *International Code of Ethics for Professional Accountants (including International Independence Standards)*, Exposure Drafts, Consultation Papers, and other IESBA publications are published by, and copyright of, IFAC.

The IESBA and IFAC do not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The 'International Ethics Standards Board for Accountants, *International Code of Ethics for Professional Accountants (including International Independence Standards)*', 'International Federation of Accountants', 'IESBA', 'IFAC', the IESBA logo, and IFAC logo are trademarks of IFAC, or registered trademarks and service marks of IFAC in the US and other countries.

Copyright © April 2021 by the International Federation of Accountants (IFAC). All rights reserved. Written permission from IFAC is required to reproduce, store or transmit, or to make other similar uses of, this document, save for where the document is being used for individual, non-commercial use only. Contact permissions@ifac.org.

Published by:





**International
Ethics Standards
Board for Accountants®**

529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ethicsboard.org