

Exposure Draft
January 2020
Comments due: May 4, 2020

*International Ethics Standards Board
for Accountants®*

Proposed Revisions to the Non-Assurance Services Provisions of the Code



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 © January 2020 by the International Federation of Accountants (IFAC). For copyright, trademark, and permissions information, please see page [66](#).

REQUEST FOR COMMENTS

This Exposure Draft, *Proposed Revisions to the Non-Assurance Services Provisions of the Code*, was developed and approved by the IESBA.

The proposals in this Exposure Draft may be modified in light of comments received before being issued in the final pronouncement. Comments are requested by **May 4, 2020**.

Respondents are asked to submit their comments electronically through the IESBA website, using the ["Submit a Comment"](#) link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Senior Technical Director, at KenSiong@ethicsboard.org.

This publication may be downloaded from the IESBA website: www.ethicsboard.org. The approved text is published in the English language.

**PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES
PROVISIONS OF THE CODE**

CONTENTS

	Page
EXPLANATORY MEMORANDUM.....	5
I. Introduction.....	5
II. Background and Overview.....	5
III. Significant Matters.....	11
IV. Analysis of Overall Impact of the Proposed Changes.....	21
V. Project Timetable and Effective Date.....	22
VI. Guide for Respondents.....	22
EXPOSURE DRAFT: Proposed Revisions TO THE NON-ASSURANCE SERVICES PROVISIONS of the CODE	25

EXPLANATORY MEMORANDUM

I. Introduction

1. This memorandum provides background to, and an explanation of, the proposed revisions to the non-assurance services (NAS) provisions of the International Independence Standards in the Code (the IIS).
2. The IESBA approved the proposed changes for exposure at its December 2019 meeting.

II. Background and Overview

A. Project Objective and Scope

3. The NAS project is a prioritized commitment in the IESBA's [Strategy and Work Plan, 2019-2023](#) and is responsive to regulatory stakeholders' and the Public Interest Oversight Board's (PIOB) broad concerns about auditor independence when a NAS is provided to an audit client. The objective of the project is to ensure that all the NAS provisions in the IIS are robust and of high quality for global application, thereby increasing confidence in the independence of audit firms.
4. The project, which was approved in September 2018, was informed by the [feedback](#) on a Briefing Paper, [Non-Assurance Services – Exploring Issues to Determine a Way Forward](#), that was discussed at four global roundtables,¹ as well as advice from the IESBA Consultative 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](#).
5. The IESBA is actively monitoring current jurisdictional developments aimed at achieving similar objectives. The IESBA notes that various jurisdictions (including Australia, the UK and the US)² are

- In April 2015, the IESBA released [Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients](#).
- In April 2018, the IESBA established safeguards-related improvements that clarified how firms and network firms are to apply the conceptual framework to identify, evaluate and address threats to independence created by providing NAS to audit and other assurance clients.

¹ About 150 senior-level delegates representing a wide range of stakeholder groups (including investors, regulators, public sector representatives, preparers, those charged with governance (TCWG), national standard setters, 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.

² Several jurisdictions are undertaking initiatives that might have implications on professional standards relating to auditor independence, for example:

- In Australia, there is a [Parliamentary Joint Committee on Corporations and Financial Service inquiry](#) into the regulation of auditing.
- There are various [UK reviews](#) and inquiries into the audit profession; and in December 2019, the UK Financial Reporting Council released [revised ethics and independence provisions](#).
- The US Securities Exchange Commission released [proposals](#) to codify certain consultations and modernize auditor independence rules in December 2019.

EXPLANATORY MEMORANDUM: NAS

undertaking initiatives that either have resulted or will result in changes to auditor independence requirements, including in relation to the NAS that audit firms provide or may provide to their audit clients.

B. Current NAS Provisions

6. The current NAS provisions in the IIS came into effect in June 2019 and are set out within Part 4A, Section 600³ for audit and review engagements, and Part 4B, Section 950⁴ for assurance engagements other than audit and review engagements.
7. The NAS provisions are to be read and applied in conjunction with the provisions in the other Parts and sections of the Code. Because of the Code's "building blocks" architecture, the NAS provisions build on the foundational provisions set out in Parts 1 to 3, in particular the general provisions that apply to professional accountants in public practice regarding applying the conceptual framework (i.e., Sections 120⁵ and 300⁶) in addition to those set out in the IIS. Users of the IIS are expected to have a proper understanding of those foundational provisions.
8. On January 6, 2020, the IESBA released the final pronouncement, [Alignment of Part 4B of the Code to ISAE 3000 \(Revised\)](#), (Part 4B Revised) with changes to make the independence provisions in Part 4B of the Code consistent with the revised assurance terms and concepts in the International Auditing and Assurance Standards Board's (IAASB's) ISAE 3000 (Revised).⁷ The proposed NAS-related changes to Sections 950 and 900⁸ in this ED are to Part 4B (Revised).

C. Highlights of Proposed Revisions

9. The proposed revisions to the IIS clarify the circumstances in which firms and network firms may or may not provide a NAS to an audit or assurance client. The IESBA expects that the proposed revisions will help achieve consistent application of the NAS provisions across firms and jurisdictions.
10. The proposals introduce several new requirements that expressly prohibit firms and network firms from providing certain types of NAS to their audit clients. Key changes proposed to the NAS provisions include:
 - A general prohibition on the provision of a NAS that creates a self-review threat to independence in the case of an audit client that is a public interest entity (PIE)⁹ (see proposed paragraph

³ Part 4A – Independence for Audit and Review Engagements, Section 600, *Provision of Non-assurance Services to an Audit Client*

⁴ 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*

⁵ Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, Section 120, *The Conceptual Framework*

⁶ Part 2 – Professional Accountants in Public Practice, Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice*

⁷ International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

⁸ Section 900, *Applying the Conceptual Framework to Independence for Assurance Engagements Other Than Audit and Review Engagements*

⁹ As further discussed below, the IESBA has committed to undertaking a project to review and revise the definition of a PIE. The Code defines a PIE as:

- (a) A listed entity; or
- (b) An entity:
 - (i) Defined by regulation or legislation as a PIE; or

EXPLANATORY MEMORANDUM: NAS

R600.14).

- New requirements to strengthen firm communication with those charged with governance (TCWG) about NAS-related matters including, in the case of audit clients that are PIEs, a requirement for firms to obtain concurrence from TCWG for the provision of the NAS (see proposed paragraphs R600.18 to 600.19 A2).
 - Strengthened provisions for identifying and evaluating threats, including those that are created by the provision of multiple NAS to the same audit client (see proposed paragraphs 600.9 A1 to 600.10 A1).
 - Enhanced clarity about the relevance of the concept of materiality in applying the NAS provisions (see proposed paragraph 600.15 A1).
 - The concept of materiality is retained as an example of a factor that a firm considers in evaluating the level of an identified threat.
 - However, in the case of audit clients that are PIEs, firms and network firms will no longer be permitted to provide a NAS to an audit client on the grounds that the outcome or the result of the NAS will not be material to the financial statements (i.e., the materiality qualifier is withdrawn).
 - In a few instances, the materiality qualifier is withdrawn for audit clients that are non-PIEs. A further discussion of this proposal is included in Section III, B, *Materiality*.
 - More robust provisions to address threats, including new application material to emphasize how a firm might deal with situations when a safeguard is not available (see proposed paragraphs 600.16 A1 to 600.16 A4).
 - Within the subsections, the descriptions of the specific types of NAS that are covered in the Code are improved and, in some cases, expanded.
 - New provisions are established for the provision of certain types of NAS (e.g., see proposed paragraphs 607.8 A1 to R607.9 relating to acting as an expert witness as part of litigation support services).
 - Some subsections are substantively revised and new application material is added to explain the circumstances in which a self-review threat is not created (e.g., see proposed paragraph 601.2 A2 in relation to accounting and bookkeeping services and proposed paragraph 604.12 A2 in relation to tax advisory and tax planning services).
11. Some structural refinements have been made in Section 600. For example, the provisions that prohibit firms and network firms from assuming a management responsibility are given more prominence by being repositioned to Section 400¹⁰ of the Code. The proposed approach also clarifies that the prohibition on assuming management responsibilities applies generally to all aspects of the relationship between a firm or network firm and an audit client, and not only in the case of the provision of NAS.
12. To facilitate stakeholder' review of the proposals, comments have been included alongside each

(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.

¹⁰ Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*

EXPLANATORY MEMORANDUM: NAS

paragraph to indicate the derivation of the proposed provisions, i.e., whether they are from particular paragraphs in the extant Code or represent new material. A staff-prepared document, *Comparison Mapping Table: Comparison of NAS Provisions in the Extant Code to the NAS ED*, supplements this ED to assist respondents in understanding the nature of the proposed revisions to the extant Code.

General Versus Specific Provisions

13. The proposals continue to include general NAS provisions in section 600 that apply in all circumstances as well as the more specific requirements and application material in subsections 601 to 610 that apply when firms and network firms provide certain types of NAS. This approach helps achieve an appropriate balance between (a) the need to have NAS provisions that are sufficiently specific to drive the consistency needed across firms in applying the NAS provisions globally, and (b) having a robust set of principles-based general NAS provisions that:
 - Accommodate the need to supplement the Code's NAS provisions with national laws and regulations that deal with jurisdictional-level circumstances as well as the evolving nature of the NAS that firms and network firms might provide to their audit clients. In this regard, the proposals include new application material to remind firms and network firms to understand and comply with the NAS provisions in national laws and regulations.
 - Ensure that the Code will have continued relevance as business practices, technology, and financial markets evolve.

D. Interactions with Current and Future IESBA Work Streams

Fees

14. This ED focuses on the proposed revisions to the NAS provisions. However, the IESBA also approved proposed revisions to the fee-related provisions in the Code in December 2019. Those fee-related proposals are set out in the Exposure Draft: *Proposed Revisions to the Fee-related Provisions of the Code (the Fees ED)*, and are aimed at strengthening firms' responsibilities with respect to fees paid by an audit client. Also, the Fees ED includes proposals to raise awareness about how fees paid to an audit firm, for the audit and services other than the audit, might affect auditor independence. In particular, in the case of audit clients that are PIEs, the fees proposals aim to promote enhanced transparency about fees to TCWG and to the public, including in relation to NAS. In addition, the Fees ED includes proposed new guidance to assist firms in evaluating and addressing threats created by a high level of fees generated by the provision of audit services and services other than audit.
15. The IESBA considered a suggestion that a fee cap in relation to NAS should be included in the IIS to mitigate threats to independence. Although fee caps are already established in certain jurisdictions (e.g., in the European Union), the IESBA is of the view that such restrictions would not be operable at the global level. The IESBA carefully considered the feedback from roundtable participants who, with the exception of some regulatory participants, expressed little or

The Fees ED includes proposals that describe how the fees paid for the audit, and services other than the audit might bear on auditor independence.

The NAS and Fees projects are being progressed on a coordinated basis and have the same timetable.

EXPLANATORY MEMORANDUM: NAS

no support for establishing fee restrictions (e.g., a fee cap) in the Code.¹¹ Instead of establishing a fee cap, the IESBA's NAS and Fees proposals 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).

16. The IESBA expects that this increased transparency combined with the proposed prohibition on the provision of NAS that give rise to a self-review threat in the case of audit clients that are PIEs, will over time, reduce the extent of NAS that are provided to those audit clients, thereby reducing the need for such fee restrictions.

Concerns about Audit Quality and Auditor Independence Arising from Multi-disciplinary Business Models

17. Some stakeholders have questioned whether the IESBA has a role to play in responding to broader concerns about audit quality and auditor independence relating to the multi-disciplinary business model of firms that includes the provision of audit services together with consulting and advisory services to a wide array of clients.

18. The NAS and Fees projects are not intended to expressly deal with these concerns as such concerns extend beyond the IESBA's mandate and would require multi-stakeholder dialogue. Nevertheless, the two projects include proposals that strengthen the IIS with the introduction of additional provisions relating to independence of mind, and independence in appearance in an explicit manner. For example, the NAS and Fees projects:

- Introduce proposed new requirements for firms to improve communications about fee- and NAS-related matters to TCWG and to the public in the case of audit clients that are PIEs. The IESBA believes that improved communication and transparency will assist to better inform stakeholder perspectives about auditor independence.
- Build on and complement the provisions in Parts 1 to 3 of the Code that help with compliance with the fundamental principles, including integrity and objectivity. For example, the NAS proposals include new application material to emphasize that the level and the nature of the fee charged for a NAS provided to an audit client is a relevant factor in identifying and evaluating threats to independence (paragraph 600.9 A2).

19. The IESBA's specific proposals are discussed in within section III, C, *Transparency and Communication with TCWG* of this EM. The IESBA believes that its proposed changes to the Code as a result of the Fees and NAS projects will strengthen the IIS and contribute towards responding to some of the concerns about the multi-disciplinary business model of firms.

¹¹ 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.
- Caution should be exercised in considering whether to establish a NAS fee threshold because doing so might have the unintended consequence of signalling 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 anathema to principles.

Technology-related Revisions

20. In December 2018, the IESBA approved the terms of reference for its Technology Working Group charged with fact-finding to gather an understanding of the ethical implications of transformations in technology on the professional activities performed by professional accountants and firms. The IESBA considered the Working Group's [final report](#) at its December 2019 meeting. In the context of that report, the IESBA considered the need for more guidance to address new and emerging NAS, including those arising from advances in technology. For example, the IESBA considered:
- Modernizing the terminology and examples in subsection 606 of extant Section 600 with respect to technology (e.g., hosting, cyber security and outsourcing).
 - Introducing a new subsection titled Technology-enabled Services.
21. The IESBA is of the view that the impact of technology relating to NAS would be better addressed holistically as part of the new project on Technology recommended in the Working Group's final report. Accordingly, the IESBA established a Technology Task Force in December 2019 which will, among other matters:
- Explore whether and, if so, how the NAS provisions might be revised to address the ethical implications of technology on the provision of NAS to audit clients.
 - Consider 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.

The work to develop proposed NAS technology-related changes will commence in 2020. It is anticipated that this work will impact subsection 606 which relates to information technology systems services.

Project on Definitions of Listed Entity and PIE

22. Consistent with the approach in the extant Code, the NAS proposals include subheadings that distinguish those provisions that apply to: (i) all audit clients; (ii) audit clients that are not PIEs; and (iii) audit clients that are PIEs. Most of the NAS proposals relate to provisions that apply to audit clients that are PIEs and acknowledge a well-established view that stakeholder concerns about a firm's independence are heightened in the case of a PIE. This view is specifically acknowledged in proposed paragraph 600.13 A1.
23. Some stakeholders have questioned the IESBA's rationale for having differential provisions for audits of PIEs and audits of non-PIEs. On one hand some stakeholders, in particular regulators wondered whether some of the independence provisions that apply to audit clients that are PIEs only should instead apply to all audit clients. On the other hand, some stakeholders from the small and medium practices (SMP) community expressed concern that the NAS proposals are increasingly disproportionate in circumstances where firms provide audit and review services to small entities that fall within the PIE definition. As part of the NAS project, the IESBA considered many suggestions in relation to those concerns, including whether to:
- Remove the distinction between the requirements for PIEs and non-PIEs – i.e., so that NAS provisions in the Code should be the same for all entities.
 - Adopt a different approach to the categorization of the provisions in the Code in such a way as to give greater consideration to the specific circumstances of small- and medium-sized entities (SMEs) / SMPs (e.g., establishing provisions for audits of SMEs versus non-SMEs; or owner-

managed enterprises (OMEs) versus non-OMEs).

- Clarify the definition of a PIE in the Code to better delineate the differences between jurisdictional approaches and the approach taken in the Code, including whether there would be merit in seeking greater convergence at the international level. For example, representatives of the CAG and the Forum of Firms have noted that a clearer definition of PIE is needed in order for the NAS proposals to achieve enhanced consistency of application.

24. In progressing the NAS project, it became clear that the timeline for the IESBA's strategic commitment to review the PIE definition needed to be accelerated. Accordingly, the IESBA approved a [project proposal](#) to do so in December 2019. This project will commence in 2020 and will be closely coordinated with the IAASB.

E. IAASB-IESBA Coordination

25. In developing the proposals relating to improved firm communication with TCWG, the IESBA has worked closely with the IAASB to ensure that the proposed revisions to the NAS provisions in the IIS are consistent with the requirements and application material in the IAASB's ISA 260 (Revised).¹² The specific proposals relating to improved firm communication are further discussed in section III, C, *Transparency and Communication with TCWG*.

III. Significant Matters

A. Prohibition on NAS that Will Create a Self-review Threat for PIEs

26. After extensive deliberation and having regard to the input provided by many stakeholders, including global roundtable participants and the CAG, the IESBA is proposing:

- A new requirement that will prohibit a firm or network firm from providing 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 (see proposed paragraph R600.14).
- Revisions to the extant NAS provisions to help firms identify threats to independence that are created or might be created by providing NAS to audit clients, in particular self-review threats (see section titled *Identifying Self-review Threats Created by Providing NAS to an Audit Client* below).

When an audit client is a PIE, stakeholders have heightened expectations regarding the firm's independence.

27. The IESBA is of the view that in the case of audit clients that are PIEs, self-review threats cannot be eliminated, and safeguards are not capable of being applied to reduce them to an acceptable level (see proposed paragraph 600.13 A2). Therefore, under proposed paragraph R600.14 for audit clients that are PIEs, NAS that will create a self-review threat are prohibited. However, for audit clients that are not PIEs, firms and network firms may continue to provide such NAS, provided that the identified self-review threat is reduced to an acceptable level in accordance to provisions in the conceptual framework. The different approach for PIEs versus non-PIEs in the Code is premised on the view that when an audit client is a PIE, stakeholders have heightened expectations regarding the firm's independence. This view is reflected in proposed paragraph 600.13 A1.

¹² International Standard on Auditing (ISA), 260 (Revised), *Communication with Those Charged with Governance*

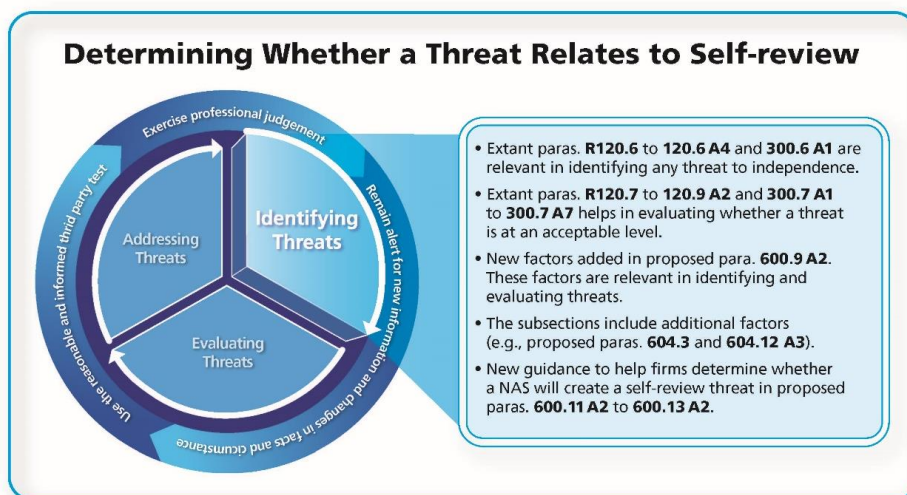
Identifying Self-review Threats Created by Providing NAS to an Audit Client

Extant Approach

28. Under the extant Code, firms are required to apply the conceptual framework set out in Section 120 of the Code to *identify* [emphasis added], evaluate and address threats to independence in relation to an audit engagement.¹³ Explicit provisions in the Code that are relevant when a firm is identifying a threat to independence are set out in paragraphs [R120.6](#) to [120.6 A4](#) and [300.6 A1](#). When identifying a threat to independence, a professional accountant is required to [exercise professional judgment](#); [remain alert for new information and changes](#) in facts and circumstances; and use the [reasonable and informed third party test](#).¹⁴
29. Identifying a NAS-related threat also involves a consideration of the general factors in [extant paragraph 600.5 A1](#) as well as the specific factors covered in the subsections of Section 600.

Proposed Revisions Arising from NAS Proposals

30. The NAS proposals that explain how firms are to identify a self-review threat created by providing a NAS to an audit client build on the provisions that are already set out in the extant Code, including certain aspects of the conceptual framework set out in Section 120.



31. New and revised application material is added to assist firms in determining whether a NAS will create a self-review threat. In considering its proposals, the IESBA reiterated that factors that are relevant in

¹³ Paragraph R400.11

¹⁴ Paragraph R120.5

EXPLANATORY MEMORANDUM: NAS

evaluating threats to independence can also help in identifying threats. This concept, which is not new¹⁵ is now more explicitly stated the NAS proposals (see the proposed revisions to all the paragraphs with examples of factors that are relevant in evaluating threats).

32. In addition, the examples of factors that are relevant in evaluating threats in [extant paragraph 600.5 A1](#) have been reordered; and two new factors are added. The new factors are “the manner in which the NAS will be provided” and “the fees relating to the provision of the NAS” (see proposed paragraph 600.9 A2).
33. Consistent with the approach in the current Code, some of the subsections within Section 600 include additional examples of factors (e.g., proposed paragraphs 604.3 A2 and 604.12 A3).

Additional guidance to assist in determining whether a NAS will create a self-review threat

34. A description of a self-review threat in the context of providing a NAS to an all audit clients is proposed in proposed paragraph 600.11 A1. This description builds on the description in [extant paragraph 120.6 A3 \(b\)](#). Proposed paragraph 600.11 A2 includes additional application material that will assist firms and network firms to determine whether the provision of a NAS to an audit client will create a self-review threat. This involves determining whether there is a risk that:
 - (a) The results of the NAS will affect the accounting records, internal controls over financial reporting, or the financial statements on which the firm will express an opinion;
 - (b) In the course of the audit of those financial statements, the results of the NAS will be subject to audit procedures; and
 - (c) When making an audit judgment, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm in the course of providing the NAS.
35. As discussed in the section titled “*Materiality*”, in general, the concept of materiality is a factor when evaluating whether a threat created by a NAS is at an acceptable level (see proposed paragraph 600.9 A2). However, in the case of an audit client that is a PIE, once the firm or a network firm determines that a NAS will create a self-review threat, the prohibition in R600.14 applies (for the reasons set out in paragraph 27 above).
36. The proposals include new application material to explain that in the case of audit clients that are PIEs, stakeholders have heightened expectations regarding the firm’s independence and that self-review threats cannot be eliminated, and safeguards are not capable of being applied to reduce them to an acceptable level (see proposed paragraphs 600.13 A1 to 600.13 A2). This application material is applicable to audit clients that are PIEs only and complements the self-review prohibition in proposed paragraph R600.14. In the case of an audit client that is not a PIE, if a self-review threat is identified, the firm may apply the conceptual framework to address it.

Providing Advice and Recommendations to Audit Clients

37. The introduction of the NAS self-review threat prohibition raised questions about:
 - The interaction between the existing prohibition relating to assuming management responsibility for an audit client and the provision of advice and recommendations to assist management; and
 - Whether the self-review threat prohibition would apply when firms provide advice and

¹⁵ See [extant paragraph 120.6 A1](#).

EXPLANATORY MEMORANDUM: NAS

recommendations to audit clients that are PIEs during a NAS engagement.

38. In response, the IESBA has proposed new application material in paragraph 600.12 A1 to state that:
- “Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph 600.11 A2. This includes considering the nature of the advice and recommendations and how such advice and recommendations might be implemented by the audit client. If a self-review threat is identified, application of the conceptual framework requires the firm to address the threat where the audit client is not a public interest entity. If the audit client is a public interest entity, paragraph R600.14 applies.”
39. Also, within the subsections, the IESBA is proposing new application material to indicate when a self-review threat will not be created with respect to providing advice and recommendations. For example, at paragraph 604.12 A2, the proposals explain 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.
40. Proposed paragraph 604.12 A2 is adapted from the second bullet in [extant paragraph 604.7 A3](#) and is responsive to a call from some stakeholders for clarity about the circumstances in which tax advisory and tax planning services would be permissible.
41. The IESBA extensively deliberated whether to include the last condition (“have a basis in tax law that is likely to prevail”) as there was a concern about its subjective nature. The IESBA is seeking views from respondents about whether proposed paragraph 604.12 A2 (c) is clear and appropriate.

B. Materiality

Audit Clients that are PIEs

42. 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.¹⁶ A high-level summary of those prohibited NAS is included in a November 2019 publication titled, [Summary of Prohibitions Applicable to Audit Clients that are Public Interest Entities](#).
43. Some stakeholders have suggested that the NAS prohibitions in the IIS should be more restrictive. They questioned the appropriateness of an approach that allows firms the discretion to consider materiality in determining whether to provide a NAS to an audit client (highlighting the potential for inconsistent approaches). They urged the Board to explore limiting the availability of such discretion.
44. In response and given the heightened stakeholder concerns about auditor independence for PIEs, the IESBA is proposing that the materiality qualifier be withdrawn for audit clients that are PIEs. The NAS self-review threat prohibition would therefore apply even if the outcome or result of the NAS is immaterial.

¹⁶ See extant paragraphs [R603.5](#), [R604.6](#), [R604.8](#), [R604.11](#), [R605.5](#), [R606.5](#), [607.3 A4](#), [R608.6](#), [R610.5](#).

EXPLANATORY MEMORANDUM: NAS

All Audit Clients

45. The following three types of NAS are prohibited for all audit clients in the extant Code if the outcome of the NAS is material:
- Tax planning and tax advisory services when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has reasonable doubt about the appropriateness of that treatment or presentation (see paragraph [R604.8 of the extant Code](#)).
 - Tax services that involve assisting in the resolution of tax disputes when the services involve acting as an advocate for the client before a public tribunal or court (see paragraph [R604.11 of the extant Code](#)).
 - Providing corporate finance services to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has reasonable doubt about the appropriateness of that treatment or presentation (see paragraph [R610.5 of the extant Code](#)).
46. In finalizing its proposals, the IESBA considered questions about whether such services should be prohibited for audit clients that are non-PIEs and the suggestion that the IIS should allow for the application of safeguards in those situations. The IESBA took the view that tax or corporate finance services should be prohibited if: (i) the effectiveness of that advice depends on an accounting treatment or presentation; and (ii) the audit team has doubts about the appropriateness of that treatment or presentation. The IESBA did not consider that that prohibition should only apply if the effect on the financial statements is material.
47. The IESBA is, therefore, proposing that the materiality qualifier should be withdrawn for all audit clients 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 (see proposed paragraphs R604.13 and R610.6). The implication of this proposal is that, for non-PIEs, the NAS proposal would be more restrictive than the approach in the extant Code.
48. Some stakeholders with whom IESBA representatives engaged in developing the proposals have expressed concern about the practical implications of this proposal for SMPs. Having regard to the public's current expectations with respect to auditor independence, the IESBA welcomes views from all stakeholders about its proposal to withdraw the reference to materiality in relation to the NAS prohibition in extant paragraphs [R604.8](#) and [R610.5](#).

Other

49. The extant Code explains that the determination of materiality involves the exercise of professional judgment; is impacted by both quantitative and qualitative factors; and is affected by perceptions of the financial information needs of users. This application material also refers readers to the relevant IAASB standard that deals with materiality (see extant paragraph [600.5 A3](#)). Some stakeholders have suggested that the IESBA clarify how the concept of materiality should be applied under the Code.
50. The NAS proposals retain the extant application material relating to materiality (see proposed paragraph 600.15 A1). Also, the concept of materiality is a relevant factor in identifying and evaluating threats to independence (see proposed paragraph 600.9 A2). However, in the case of audit clients that are PIEs, if a self-review threat is identified, the NAS is prohibited irrespective of whether the outcome of that NAS is immaterial to the financial statements.

C. Transparency and Communication with TCWG

51. Effective oversight by TCWG, including audit committees, contributes to supporting audit quality and increasing market confidence in the quality of information in financial reporting. The IAASB's International Standards require auditor communication about certain independence matters in the case of listed entities.¹⁷ The extant Code states that "even when not required by the Code, applicable professional standards, laws or regulations, regular communication is encouraged between a firm and TCWG regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence."¹⁸ It does not repeat the provisions that are included in the IAASB's standards.
52. Some stakeholders, including participants in the global roundtables and the CAG, have suggested that the IIS should, at a minimum, reflect the provisions relating to auditor communications with TCWG about independence and NAS specific matters that are established in the IAASB's International Standards on Auditing. It was also suggested that the IIS should require TCWG to approve the NAS to be performed as well as the fees to be charged by the audit firm for providing the NAS – an approach that already exists in some jurisdictions. More broadly, questions have been raised about whether TCWG are in need of more guidance to promote and support audit quality.¹⁹
53. The IESBA agrees that improved firm communication with TCWG about NAS, including NAS fees, provides enhanced transparency which, in turn, will support good corporate governance practice and provide information to help TCWG better assess the firm's independence.

Audit Clients that are PIEs

54. With respect to audit clients that are PIEs, the IESBA's proposals:
- Require the firm to provide TCWG with sufficient information to enable them to make an informed decision about the impact of the provision of such NAS on the firm's independence (see proposed paragraph R600.18).
 - Require the firm or the network firm to obtain concurrence from TCWG for the provision of a NAS,

¹⁷ Paragraph 17 of ISA 260 (Revised) requires that in the case of listed entities, the auditor communicate with TCWG about ethics and independence matters in relation to the engagement team and others in the firm and network firm as appropriate. This communication is required to include a statement about:

- (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence, including **total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity**. These fees shall be allocated to categories that are appropriate to assist TCWG in assessing the effect of services on the independence of the auditor; and
- (ii) The **related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level**.

¹⁸ See Part 4A, Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*, paragraphs [400.40 A1](#) to [400.40 A2](#). The Code also notes that such auditor communication with TCWG enables TCWG to:

- (a) Consider the firm's judgments in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
- (c) Take appropriate action.

¹⁹ For example, see the International Organization of Securities Commissions (IOSCO) [Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality](#) that was released in April 2018.

as well as, the firm's conclusion that any threat to independence has been eliminated or that safeguards that the firm proposes to apply will reduce such threat to an acceptable level (see proposed paragraph R600.19).

55. To help the firm determine the nature of information that should be provided to TCWG, the proposals include examples in proposed paragraph 600.18 A1.

56. With respect to the process or manner in which firms obtain concurrence from TCWG, the proposals allow for maximum flexibility so as to accommodate varying corporate governance regimes. A firm and TCWG may put in place a process that is suitable for their circumstances. For example, concurrence may be obtained either on an individual engagement basis, under a general policy, or via other means (see proposed paragraph 600.19 A1).

Proposed Matters to Communicate with TCWG

- The nature and scope of the NAS to be provided.
- Any threats to independence identified by the firm arising from the provision of such NAS.
- Whether such threats are at an acceptable level.
- Actions that the firm or network firm intends to take to address any threats that are not at an acceptable level.
- How such actions will eliminate or reduce the threats to an acceptable level.

57. As part of its deliberations, the IESBA considered whether the proposals should indicate how firms and network firms may apply the new communication provisions in a group audit context, and in the case of related entities. The IESBA has not made any change to the extant Code and so its proposals relate only to related entities over which the audit client has direct or indirect control. However, the IESBA notes that the IAASB is considering revisions to ISA 600²⁰ (which deals with special considerations that apply in audits of group financial statements). The IESBA is monitoring the progress of this project and will coordinate with the IAASB as part of a separate project to consider enhancements and clarifications to the Code regarding independence in a group audit context.

Communication with TCWG for Other Assurance Engagements

58. The IESBA believes that it is in the public interest to enhance communication with TCWG about independence matters with respect to assurance engagements other than audits and reviews. Accordingly, new application material is proposed for inclusion in Section 900 to mirror existing application material in Section 400 of the extant Code (see proposed paragraphs 900.34 A1 to 900.34 A2). This proposal is intended to encourage firms to communicate with TCWG about significant judgments made and conclusions reached to address threats to independence created by providing a NAS to an assurance client.

59. However, the IESBA is not proposing to extend the proposed communications requirements and for audits in Section 600 (including the provisions relating to obtaining concurrence from TCWG before providing a NAS to an audit client) to other assurance engagements in Section 950. This is because the primary focus of the NAS proposals is to respond to concerns about firms' independence in the context of providing NAS to audit clients.

²⁰ ISA 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

D. Other Substantive Revisions to the Subsections in Section 600

60. The requirements and application material in subsections 601 to 610 of the current Code follow a consistent layout and structure which is amplified in the [eCode](#). The approach helps users navigate the Code quickly and focus on aspects of the Code pertinent to their circumstances (e.g., the provisions that are applicable to PIEs only).
61. As part of the NAS proposals, the provisions within the subsections have been re-ordered as follows:
- Introduction – This reinforces the need to apply the general NAS provisions.
 - Application material setting out the following:
 - The description of the service.
 - The potential threats arising from the provision of the service. This includes:
 - A statement about the likelihood of a threat being created, revised to be more specific.
 - Headings to clearly distinguish provisions for all audit clients versus those that are for audit clients that are not PIEs, and audit clients that are PIEs.
 - Under the heading titled “Audit clients that are PIEs”, a prohibition on the specific NAS when a self-review threat is created. When the provision of that specific NAS creates a threat other than self-review (e.g., an advocacy threat), application material provides examples of actions that might be safeguards.
62. Many of the substantive revisions to the subsections are already discussed above. The remaining substantive revisions that are being proposed to the subsections are as follows:

Name of Subsection	Nature of Proposed Revision
Subsection 601 – Accounting and Bookkeeping Services	<ul style="list-style-type: none"> • The NAS proposals reflect the IESBA’s current thinking that providing accounting and bookkeeping services to an audit client creates a self-review threat ... (see proposed paragraph 601.3 A1). The analogous statement in the extant Code states that, “... audit client might create a self-review threat.” • Clarification about permissible services that form part of the audit process in proposed paragraph 601.2 A2. • In line with the proposed self-review threat prohibition: <ul style="list-style-type: none"> ○ The exemption in extant paragraph R601.7 relating to the provision of accounting and bookkeeping services to divisions and related entities of audit clients that are PIEs in certain circumstances is withdrawn. ○ The provision of technical assistance on accounting related matters, such as resolving accounting reconciliation problems is now prohibited for audit clients that are PIEs.

EXPLANATORY MEMORANDUM: NAS

Name of Subsection	Nature of Proposed Revision
	<p>For audit clients that are not PIEs, the self-review threat prohibition does not apply and the extant approach applies (see proposed paragraphs R601.4 to 601.4 A2).</p>
<p>Subsection 603 – Valuation Services</p>	<ul style="list-style-type: none"> • At proposed paragraph 603.3 A2, an additional factor that is relevant to identifying and evaluating threats created by providing valuation services is added in a new bullet that reads “The extent to which the valuation methodology is supported by law or regulation, other precedent or established practice.”
<p>Subsection 604 – Tax Services</p>	<ul style="list-style-type: none"> • The proposals include a new requirement that prohibits a firm or a network firm from providing a tax service or recommending a transaction to an audit client if the service or transaction relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless that treatment has a basis in applicable tax law and regulation that is likely to prevail (see proposed paragraph R604.4). The requirement is adapted from the US Public Accounting Oversight Board's Rule 3522, and is intended to prohibit such tax services and transactions. • As part of the proposals relating to tax valuations, there is enhanced clarity to explain when firms and network firms are to comply with the valuation provisions in subsection 603 (see proposed paragraph 604.17 A2).
<p>Subsection 607 – Litigation Support Services</p>	<ul style="list-style-type: none"> • The general description of litigation support services is modified to include forensic or investigative services. • New provisions are proposed with respect to acting as a witness, including a requirement that prohibits 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 (see proposed paragraphs 607.7 A1 to R607.9).

EXPLANATORY MEMORANDUM: NAS

Name of Subsection	Nature of Proposed Revision
	<ul style="list-style-type: none"> • Throughout the proposals, the extant language is changed by the removal of the word “public” before “court” or “tribunal” because the IESBA’s current thinking is that an advocacy threat arises irrespective of whether the dispute is heard in private or in public
Subsection 608 – Legal Services	<ul style="list-style-type: none"> • Structural refinements are proposed to highlight and clarify the provisions that relate to providing legal advice, acting as general counsel and acting in an advocacy role (see proposed paragraphs 608.4 A1 to R608.9).
Subsection 610 – Corporate Finance Services	<ul style="list-style-type: none"> • The general description of corporate financial services is modified to include (see proposed paragraph 610.2 A1): <ul style="list-style-type: none"> ○ Performing due diligence in relation to potential acquisitions and disposals. ○ Valuation of a prospective acquisition.

E. Matters Relevant to Section 950

- 63. The existing alignment between the provisions in Section 600 in Part 4A and Section 950 in Part 4B is retained. Therefore, the provisions in Section 950 that apply to assurance clients mirror the proposed revisions to the general provisions in Section 600.
- 64. As noted in the Background and Overview section above, proposed revisions to Section 950 are to Part 4B (Revised). Substantive aspects of the proposed consequential revisions to Section 950 include:
 - New application material is added to explain the heightened expectations relating to assurance clients that are PIEs (see proposed paragraphs 950.9 A1 to 950.9 A2).
 - The requirements and application material relating to the assumption of management responsibilities that are repositioned from Section 950 to Section 900 which is further discussed below.

F. Matters Relevant to Sections 400 and 900

Prohibition on Assuming Management Responsibilities

- 65. One of the overarching principles concerning independence in relation to NAS is that a firm or network firm must not assume a management responsibility for an audit client. The Code provides a description of management responsibilities and includes additional provisions to help firms ensure that they do not assume a management responsibility.

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

- 66. As noted above, under the NAS proposals the provisions that prohibit firms and network firms from assuming a management responsibility for an audit client will be repositioned from Section 600 to Section

EXPLANATORY MEMORANDUM: NAS

400, giving them more prominence. The IESBA is of the view that Section 400, which sets out the general provisions relating to the application of the conceptual framework to independence for audit and review engagements, is the appropriate location for those provisions. Similar conforming amendments are being proposed to Sections 950 and 900 to maintain the existing alignment between Parts 4A and 4B of the Code.

67. Except for the new location, the provisions relating to the prohibition on assuming a management responsibility are substantively unchanged.

Clarification about Period for Which Independence is Required for Audit Clients that are PIEs

68. In light of the introduction of the self-review threat prohibition, the proposals now prohibit a firm from accepting appointment as auditor of a PIE to which the firm or the 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, as proposed in paragraph R400.32:

- (a) The results of the NAS had been subject to auditing procedures in the course of the audit of the prior year's financial statements by a predecessor firm;
- (b) The firm engages a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, to perform a review of the first audit engagement affected by the self-review threat that is equivalent to an engagement quality review; or
- (c) The PIE engages another firm to:
 - (i) Evaluate the results of the NAS; or
 - (ii) Re-perform the NAS,in either case to the extent necessary to enable the other firm to take responsibility for the NAS.

69. In finalizing the proposals, the IESBA considered a concern from representatives of the SMP community that this approach would no longer allow for an individual from the firm, who is not involved in the audit engagement to evaluate the result of the NAS or reperform the service. It was argued that the involvement of an individual from the firm, who is not involved in the audit engagement would be a proportionate and cost-effective approach in the case of small PIEs.

70. The IESBA acknowledged those views but considered that it should not adopt a proposal unless it would be appropriate for all PIEs. However, the IESBA welcomes views from stakeholders as to whether there is a need to consider a less stringent approach for small PIEs.

IV. Analysis of Overall Impact of the Proposed Changes

71. The IESBA believes that the proposals are critical to maintaining public trust and confidence in the audit because they are intended to address public perceptions about auditor independence. The public interest will be served by having a Code that contains robust and high-quality provisions governing the provision of NAS to audit clients that are applied consistently across jurisdictions, thereby increasing confidence in the independence of audit firms. Any enhancements to the Code as a result of this project will strengthen the IIS, thereby contributing to public trust and confidence in the quality of the auditor's work.
72. Given the nature and extent of the proposed revisions to the Code, the IESBA believes that some of the proposals are of a level of complexity that would entail significant changes to the policies and procedures for some stakeholders, including firms and TCWG. Such changes may result in increased costs.

EXPLANATORY MEMORANDUM: NAS

73. Whether there will be additional costs, and the nature and significance of those costs, will depend on the particular circumstances. For example, there may be no additional costs in relation to identifying and evaluating threats created by providing a NAS to an audit client. On the other hand, there may be some initial costs to a firm or network firm if it will need to discontinue or end certain types of NAS that will no longer be permissible as a result of the proposals (e.g., valuation services for audit clients that are PIEs and providing immaterial accounting and bookkeeping services to divisions or related entities of an audit client that is a PIE). Also, there may be additional time and costs associated with implementing the proposed requirement to obtain concurrence from TCWG for providing a NAS to an audit client that is a PIE.
74. As with any changes to the Code, firms can expect implementation costs associated with awareness and training initiatives, translation where needed, and maintenance costs in updating their internal policies and methodologies.

V. Project Timetable and Effective Date

75. The IESBA is mindful of the need for appropriate alignment in finalizing the NAS and Fees pronouncements. It will also coordinate the timing of effective dates for the final provisions from these projects with the effective date of the final provisions from the PIE project. Information about IESBA's projects and its timetable is available at: www.ethicsboard.org/consultations-projects.
76. The indicative timeline for the NAS project is set out below.

June 2020	IESBA discussion of highlights of significant comments on the ED
September 2020	<ul style="list-style-type: none">• Discussion of significant issues arising on exposure with the IESBA CAG• Full IESBA review of respondents' comments and first read of revised proposals
December 2020	IESBA approval of final pronouncement

VI. Guide for Respondents

77. The IESBA welcomes comments on all matters addressed in this ED, but especially those identified in the Request for Specific Comments below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

Request for Specific Comments

<i>Prohibition on NAS that Will Create a Self-review Threat for PIEs</i>	
1.	Do you support the proposal to establish a self-review threat prohibition in proposed paragraph R600.14?
2.	Does the proposed application material in 600.11 A2 set out clearly the thought process to be undertaken when considering whether the provision of a NAS to an audit client will create a self-review threat? If not, what other factors should be considered?

Providing Advice and Recommendations

3. Is the proposed application material relating to providing advice and recommendations in proposed paragraph 600.12 A1, including with respect to tax advisory and tax planning in proposed paragraph 604.12 A2, sufficiently clear and appropriate, or is additional application material needed?

Project on Definitions of Listed Entity and PIE

4. Having regard to the material in section I, D, "Project on Definitions of Listed Entity and PIE," and the planned scope and approach set out in the [approved project proposal](#), please share your views about what you believe the IESBA should consider in undertaking its project to review the definition of a PIE.

Materiality

5. Do you support the IESBA's proposals relating to materiality, including the proposal to withdraw the materiality qualifier in relation to certain NAS prohibitions for audit clients that are PIEs (see Section III, B "Materiality")?
6. Do you support the proposal to prohibit the following NAS for all audit clients, irrespective of materiality:
- Tax planning and tax advisory services provided to an audit client when the effectiveness of the tax advice is dependent on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R604.13)?
 - Corporate finance services provided to an audit client when the effectiveness of such advice depends on a particular accounting treatment or presentation and the audit team has doubt about the appropriateness of that treatment or presentation (see proposed paragraph R610.6)?

Communication with TCWG

7. Do you support the proposals for improved firm communication with TCWG (see proposed paragraphs R600.18 to 600.19 A1), including the requirement to obtain concurrence from TCWG for the provision of a NAS to an audit client that is a PIE (see proposed paragraph R600.19)?

Other Proposed Revisions to General NAS Provisions

8. Do you support the proposal to move the provisions relating to assuming management responsibility from Section 600 to Section 400, and from Section 950 to Section 900?
9. Do you support the proposal to elevate the extant application material relating to the provision of multiple NAS to the same audit client to a requirement (see proposed paragraph R600.10)? Is the related application material in paragraph 600.10 A1 helpful to implement the new requirement?

Proposed Revisions to Subsections

10. Do you support the proposed revisions to subsections 601 to 610, including:
- The concluding paragraph relating to the provision of services that are "routine or mechanical" in proposed paragraph 601.4 A1?
 - The withdrawal of the exemption in [extant paragraph R601.7](#) that permits firms and network firms to provide accounting and bookkeeping services for divisions and related entities of a PIE if

certain conditions are met?

- The prohibition on the provision of a tax service or recommending a tax transaction if the service or transaction relates to marketing, planning or opining in favor of a tax treatment, and a significant purpose of the tax treatment or transaction is tax avoidance (see proposed paragraph R604.4)?
- The new provisions relating to acting as a witness in subsection 607, including the new prohibition relating to acting as an expert witness in proposed paragraph R607.6?

Proposed Consequential Amendments

11. Do you support the proposed consequential amendments to Section 950?
12. Are there any other sections of the Code that warrant a conforming change as a result of the NAS project?

Request for General Comments

78. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:
 - *Those Charged with Governance, including Audit Committee Members* – The IESBA invites comments regarding any aspect of the proposals from individuals with responsibilities for governance and financial reporting oversight responsibilities. This includes small businesses where a single owner manages the entity and also has a governance role.
 - *Small- and Medium-Sized Entities (SMEs) and Small and Medium Practices (SMPs)* – The IESBA invites comments regarding any aspect of the proposals from SMEs and SMPs.
 - *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.
 - *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.
 - *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

EXPOSURE DRAFT: PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF THE CODE

The Proposals

This NAS proposals includes proposed revisions as well as consequential and conforming amendment. These proposals are set out in:

- Chapter 1 – Proposed revisions to Part 4A, Section 600 (see pages 23 to 53).
- Chapter 2 – Proposed conforming amendments to Section 400 (see pages 53 to 56)
- Chapter 3 – Proposed consequential amendments to [Part 4B \(Revised\)](#), Section 950 (see pages 56 to 59).
- Chapter 4 – Proposed conforming amendments to [Part 4B \(Revised\)](#), Section 900 (see pages 59 to 63).

Certain paragraphs (shaded in grey) are unchanged from the extant Code and are provided for context only.

Comparing the Proposals to the NAS Provisions in the Extant Code

The proposals include comments alongside each paragraph to explain the derivation of the proposed provisions, i.e., whether they are from particular paragraphs in the extant Code or represent new material.

A staff-prepared [Mapping Table](#) supplements this ED to assist respondents in understanding the nature of the proposed revisions to the extant Code.

I. Chapter 1 of NAS ED – Proposed Revisions to Section 600

PART 4A – INTERNATIONAL INDEPENDENCE STANDARDS FOR AUDITS AND REVIEWS

...

Section 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

Introduction

600.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Commented [IESBA1]: 600.1

600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.

Commented [IESBA2]: 600.2

600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit clients. The subsections that follow set out specific requirements

Commented [IESBA3]: 600.3

and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to audit clients and indicate the types of threats that might be created as a result.

600.4 In addition to the general provisions that apply in all circumstances, some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to an audit client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.

Commented [IESBA4]: 600.3

Requirements and Application Material

General

600.5 A1 New business practices, the evolution of financial markets and changes in technology are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to an audit client. As a result, the Code does not include an exhaustive list of all non-assurance services that might be provided to a client.

Commented [IESBA5]: 600.4 A2

Non-Assurance Services Provisions in Laws or Regulations

600.6 A1 Paragraphs R100.3 to 100.3 A2 set out a requirement and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to audit clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions.

Commented [IESBA6]: New paragraph

Prohibition on Assuming Management Responsibilities

600.7 A1 When a firm or network firm provides a non-assurance service to an audit client, including providing advice and recommendations as part of such a service, there is a risk that a firm or a network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R400.14 have been complied with.

Commented [IESBA7]: 600.7 A4

Accepting an Engagement to Provide a Non-Assurance Service

R600.8 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

Commented [IESBA8]: R600.4

Identifying and Evaluating Threats

All Audit Clients

600.9 A1 A description of the categories of threats that might arise when a firm or network firm provides a non-assurance service to an audit client is set out in 120.6 A3.

Commented [IESBA9]: New paragraph

600.9 A2 Factors that are relevant in identifying and evaluating threats created by providing a non-assurance service to an audit client include:

Commented [IESBA10]: 600.5 A1

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided.
- The legal and regulatory environment in which the service is provided.

EXPOSURE DRAFT: NAS

- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgment. (Ref: Para. R400.13 to R400.14).
- Whether the outcome of the service will affect the accounting records or matters reflected in the financial statements on which the firm will express an opinion, and, if so:
 - The extent to which the outcome of the service will have a material effect on the financial statements.
 - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that form a significant part of the client's:
 - Accounting records or financial statements on which the firm will express an opinion, or
 - Internal controls over financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The fees relating to the provision of the non-assurance services.

600.9 A3 Subsections 601 to 610 include examples of additional factors that are relevant in identifying and evaluating the level of threats created by providing the non-assurance services set out in those subsections.

Commented [IESBA11]: 600.5 A2

Multiple Non-Assurance Services Provided to the Same Audit Client

R600.10 When a firm or a network firm provides multiple non-assurance services to an audit client, the firm shall consider, in addition to the threats created by each service individually, whether the combined effect of such services creates or impacts threats to independence.

Commented [IESBA12]: 600.5 A4

600.10 A1 In addition to paragraph 600.9 A2, factors that are relevant in evaluating the level of threats created where multiple non-assurance services are provided to an audit client might include whether:

Commented [IESBA13]: New paragraph

- The combined effect of providing multiple services impacts the level of threats created by each individual service.
- A proposed service impacts the effectiveness of safeguards put in place in relation to other non-assurance services.

Self-review Threats

600.11 A1 When a firm or network firm undertakes a non-assurance service for an audit client, there might be a risk of the firm auditing its own work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgment made or an activity performed by an individual within the firm or network

Commented [IESBA14]: New paragraph

firm as part of a non-assurance service on which the audit team will rely when forming a judgment as part of an audit.

600.11 A2 Identifying whether the provision of a non-assurance service to an audit client will create a self-review threat involves determining whether there is a risk that:

Commented [IESBA15]: New paragraph

- (a) The results of the service will affect the accounting records, internal controls over financial reporting, or the financial statements on which the firm will express an opinion;
- (b) In the course of the audit of those financial statements, the results of the service will be subject to audit procedures; and
- (c) When making an audit judgment, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm in the course of providing the service.

Providing advice and recommendations

600.12 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in 600.11 A2. This includes considering the nature of the advice and recommendations and how such advice and recommendations might be implemented by the audit client. If a self-review threat is identified, application of the conceptual framework requires the firm to address the threat where the audit client is not a public interest entity. If the audit client is a public interest entity, paragraph R600.14 applies.

Commented [IESBA16]: New paragraph

Audit clients that are public interest entities

600.13 A1 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an audit client that is a public interest entity.

Commented [IESBA17]: New paragraph

600.13 A2 Where the provision of a non-assurance service to an audit client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

Commented [IESBA18]: New paragraph

R600.14 A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity 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.

Commented [IESBA19]: New paragraph

Materiality in Relation to Financial Statements

600.15 A1 Subsections 601 to 610 refer to materiality in relation to an audit client's financial statements. The concept of materiality in relation to an audit is addressed in ISA 320, *Materiality in Planning and Performing an Audit*, and in relation to a review in ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

Commented [IESBA20]: 600.5 A3

Addressing Threats

600.16 A1 Paragraphs R120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

Commented [IESBA21]: 600.6 A1, 600.6 A3

600.16 A2 Threats to independence created by providing a non-assurance service or multiple services to an audit client vary depending on the facts and circumstances of the audit engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

Commented [IESBA22]: New paragraph

600.16 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed.
- Obtaining pre-clearance or confirmation of the outcome of the service from an appropriate authority (e.g., a tax authority).

Commented [IESBA23]: New paragraph

600.16 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to an audit client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm or network firm to:

Commented [IESBA24]: New paragraph

- (a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threats;
- (b) Decline or end the service that creates the threats that cannot be eliminated or reduced to an acceptable level; or
- (c) End the audit engagement.

Communication with Those Charged With Governance Regarding Non-Assurance Services

Audit Clients that are not Public Interest Entities

600.17 A1 In the case of audit clients that are not public interest entities, paragraphs 400.40 A1 and 400.40 A2 are relevant to a firm's communication with those charged with governance in relation to the provision of non-assurance services.

Commented [IESBA25]: New paragraph

Audit Clients that are Public Interest Entities

R600.18 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client that is a public interest entity which, for this purpose, shall include only related entities over which the audit client has direct or indirect control, the firm shall provide those charged with governance with sufficient information to enable them to make an informed decision about the impact of the provision of such a non-assurance service on the firm's independence.

Commented [IESBA26]: New paragraph

600.18 A1 Examples of information that might be provided to those charged with governance include:

Commented [IESBA27]: New paragraph

- The nature and scope of the service to be provided.
- Any threats to independence identified by the firm from the provision of such a service.
- Whether such threats are at an acceptable level.
- Actions that the firm or network firm intends to take to address any threats that are not at an acceptable level.
- How such actions will eliminate or reduce the threats to an acceptable level.

R600.19 A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity which, for this purpose, shall include only related entities over which the audit client has direct or indirect control, unless those charged with governance of the public interest entity concur with:

Commented [IESBA28]: New paragraph

- (a) The provision of that service; and
- (b) The firm's conclusion that any threat to independence has been eliminated or that safeguards that the firm proposes to apply will reduce such threat to an acceptable level.

600.19 A1 The process by which the firm obtains the concurrence of those charged with governance for the provision of a non-assurance service to the audit client might be for example, on an individual engagement basis, under a general policy, or via other means provided that the process to be used is approved by those charged with governance.

Commented [IESBA29]: New paragraph

600.19 A2 Where an audit client includes one or more public interest entities, it might be appropriate for the process by which the firm or the network firm obtains concurrence to address how and from whom such concurrence is to be obtained.

Commented [IESBA30]: New paragraph

Audit Client that Later Becomes a Public Interest Entity

R600.20 A non-assurance service provided, either currently or previously, by a firm or a network firm to an audit client compromises the firm's independence when the client becomes a public interest entity unless:

Commented [IESBA31]: 600.9

- (a) The previous non-assurance service complies with the provisions of this section that relate to audit clients that are not public interest entities;
- (b) Non-assurance services currently in progress that are not permitted under this section for audit clients that are public interest entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a public interest entity; and
- (c) The firm discusses actions with those charged with governance, that might be taken to address any threat to independence, obtains their concurrence to the approach it proposes to take, and implements such actions.

600.20 A1 Examples of actions that the firm might take include:

Commented [IESBA32]: New paragraph

- 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 non-assurance service or having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Considerations for Certain Related Entities

R600.21 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit clients. As an exception to those requirements and the requirement in paragraph R400.13, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:

Commented [IESBA33]: R600.10

- (a) An entity that has direct or indirect control over the client;

- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
 - (c) An entity which is under common control with the client,
- provided that all of the following conditions are met:
- (i) The firm or a network firm does not express an opinion on the financial statements of the related entity;
 - (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion;
 - (iii) The services do not create a self-review threat; and
 - (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.21 are relevant to applying the conceptual framework when providing accounting and bookkeeping services to an audit client.

Commented [IESBA34]: 601.2

Requirements and Application Material

General

601.2 A1 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

Commented [IESBA35]: 601.3 A3

- Determining accounting policies and the accounting treatment in accordance with those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction. Examples include:
 - Purchase orders.
 - Payroll time records.
 - Customer orders.
- Originating or changing journal entries.
- Determining or approving the account classifications of transactions.

601.2 A2 The audit process necessitates dialogue between the firm and the management of the audit client, which might involve:

Commented [IESBA36]: 601.3 A3

- Applying accounting standards or policies and financial statement disclosure requirements.
- Assessing the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities.

- Proposing adjusting journal entries arising from audit findings.
- Responding to questions relating to financial reporting.
- Discussing how to resolve account reconciliation problems.
- Analyzing information for regulatory reporting purposes.
- Discussing how to comply with group accounting policies.
- Discussing how to convert existing financial statements from one financial reporting framework to another.

These activities do not usually create threats as long as the client accepts responsibility for making the decisions involved in the preparation of accounting records or financial statements and the firm does not assume a management responsibility.

Description of Service

601.2 A3 Accounting and bookkeeping services comprise a broad range of services including:

Commented [IESBA37]: 601.3 A1

- Preparing accounting records or financial statements.
- Recording transactions.
- Payroll services.
- Providing technical assistance on matters such as resolving account reconciliation problems.
- Providing technical advice on accounting issues, including the conversion of existing financial statements from one financial reporting framework to another.

Potential Threats Arising from the Provision of Accounting and Bookkeeping Services

All Audit Clients

601.3 A1 Providing accounting and bookkeeping services to an audit client creates a self-review threat when the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion.

Commented [IESBA38]: 601.1

Audit Clients that are Not Public Interest Entities

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

Commented [IESBA39]: R601.5

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

601.4 A1 Routine and mechanical accounting and bookkeeping services require little or no professional judgment. Examples include:

Commented [IESBA40]: 601.4 A1

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.

- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

The firm may provide such services to audit clients that are not public interest entities provided that the firm complies with the requirements of R400.14 to ensure that it does not assume management responsibility in connection with the service and with the requirement in R601.4 (b).

601.4 A2 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine and mechanical nature to an audit client that is not a public interest entity include:

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

Audit Clients that are Public Interest Entities

R601.5 A firm or a network firm shall not provide accounting and bookkeeping services to an audit client that is a public interest entity if the provision of such accounting and bookkeeping services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.21 are relevant to applying the conceptual framework when providing administrative services.

Application Material

Description of Service

602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.

602.2 A2 Examples of administrative services include:

- Word processing or document formatting.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.

Commented [IESBA41]: 601.5 A1

Commented [IESBA42]: R601.6

Commented [IESBA43]: 602.2

Commented [IESBA44]: 602.3 A1

Commented [IESBA45]: 602.3 A2

- Monitoring filing dates and advising the audit client of those dates.

Potential Threats Arising from the Provision of Administrative Services

All Audit Clients

602.3 A1 Providing administrative services to an audit client does not usually create a threat when such services are clerical in nature and require little to no professional judgment.

Commented [IESBA46]: 602.1

SUBSECTION 603 – VALUATION SERVICES

Introduction

603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.21 are relevant to applying the conceptual framework when providing valuation services to an audit client.

Commented [IESBA47]: 603.2

Requirements and Application Material

Description of Service

603.2 A1 A valuation comprises the making of assumptions with regard to future developments, the application of appropriate methodologies and techniques and the combination of both to compute a certain value, or range of values, for an asset, a liability or for the whole or part of an entity.

Commented [IESBA48]: 603.3 A1

603.2 A2 If a firm or a network firm is requested to perform a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes and the results of the valuation affect only the accounting records or the financial statements through accounting entries related to tax, the requirement and application material set out in paragraphs 604.16 A1 to R604.19 A1, relating to such services, apply.

Commented [IESBA49]: 603.3 A2

Potential Threats Arising from the Provision of Valuation Services

All Audit Clients

603.3 A1 Providing a valuation service to an audit client might create a self-review threat when the results of the service will affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

Commented [IESBA50]: 603.1

603.3 A2 Factors that are relevant in identifying self-review or advocacy threats, and evaluating the level of any such threats, created by providing valuation services to an audit client include:

Commented [IESBA51]: 603.3 A3

- The use and purpose of the valuation report.
- Whether the valuation report will be made public.
- The extent to which the valuation methodology is supported by law or regulation, other precedent or established practice.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
- The degree of subjectivity inherent in the item for valuations involving standard or established methodologies.
- Whether the valuation will have a material effect on the financial statements.

- The extent of the disclosures related to the valuation in the financial statements.
- The volatility of the amounts involved as a result of dependence on future events.

Audit Clients that are Not Public Interest Entities

603.3 A3 Examples of actions that might be safeguards to address threats created by providing valuation services to an audit client that is not a public interest entity include:

Commented [IESBA52]: 603.3 A4

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

R603.4 A firm or a network firm shall not provide a valuation service to an audit client that is not a public interest entity if:

Commented [IESBA53]: R603.4

- (a) The valuation involves a significant degree of subjectivity; and
- (b) The valuation will have a material effect on the financial statements on which the firm will express an opinion.

603.4 A1 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are either established by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation. In such circumstances, the results of a valuation performed by two or more parties are not likely to be materially different.

Commented [IESBA54]: 603.4 A1

Audit Clients that are Public Interest Entities

Self-review Threats

R603.5 A firm or a network firm shall not provide a valuation service to an audit client that is a public interest entity if the provision of such valuation service will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Commented [IESBA55]: R603.5

Advocacy Threats

603.5 A1 An example of an action that might be a safeguard to address an advocacy threat created by providing valuation services to an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.

Commented [IESBA56]: 603.3 A4

SUBSECTION 604 – TAX SERVICES

Introduction

604.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.21 are relevant to applying the conceptual framework when providing a tax service to an audit client.

Commented [IESBA57]: 604.3 A2

Requirements and Application Material

Description of Service

604.2 A1 Tax services comprise a broad range of services. This subsection deals specifically with:

Commented [IESBA58]: 604.3 A1

- Tax return preparation.
- Tax calculations for the purpose of preparing accounting entries.
- Tax advisory services
- Tax planning services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

604.2 A2 It is possible to consider tax services under broad headings, such as tax planning or compliance. However, such services are often interrelated in practice and might be combined with other types of non-assurance services provided by the firm such as corporate finance services. It is, therefore, impracticable to categorize generically the threats to which specific tax services give rise.

Commented [IESBA59]: New paragraph

Potential Threats Arising from the Provision of Tax Services

604.3 A1 Providing tax services to an audit client might create 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. Such services might also create an advocacy threat.

Commented [IESBA60]: 604.3 A1

604.3 A2 Factors that are relevant in identifying self-review or advocacy threats, and evaluating the level of any such threats created by providing any tax service to an audit client include:

Commented [IESBA61]: 604.3 A2

- The particular characteristics of the engagement.
- The level of tax expertise of the client's employees.
- The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
- The complexity of the relevant tax regime and the degree of judgment necessary in applying it

All Audit Clients

R604.4 A firm or a network firm shall not provide a tax service or recommend a transaction to an audit client if the service or transaction relates to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless that treatment has a basis in applicable tax law and regulation that is likely to prevail.

Commented [IESBA62]: New paragraph

604.4 A1 Unless the tax treatment has a basis in applicable tax law and regulation that is likely to prevail, providing the non-assurance service described in paragraph R604.4 creates self-interest, self-review and advocacy threats that cannot be eliminated and safeguards are not capable of being applied to reduce those threats to an acceptable level.

Commented [IESBA63]: New paragraph

A. Tax Return Preparation

Description of Service

604.5 A1 Tax return preparation services include:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities.
- Advising on the tax return treatment of past transactions.
- Responding on behalf of the audit client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

Commented [IESBA64]: 604.4 A2

Potential Threats Arising from the Provision of Tax Return Preparation Services

All Audit Clients

604.6 A1 Providing tax return preparation services does not usually create a threat because:

- (a) Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice; and
- (b) Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

Commented [IESBA65]: 604.4 A1

B. Tax Calculations for the Purpose of Preparing Accounting Entries

Description of Service

604.7 A1 This service involves the preparation of calculations of current and deferred tax liabilities or assets for the purpose of preparing accounting entries supporting tax assets or liabilities in the financial statements of the audit client.

Commented [IESBA66]: New paragraph

Potential Threats Arising from the Provision of Tax Calculation Services

All Audit Clients

604.8 A1 Preparing 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 create a self-review threat.

Commented [IESBA67]: 604.5 A1

Audit Clients that are Not Public Interest Entities

604.9 A1 A self-review threat is created when preparing tax calculations of current and deferred tax liabilities (or assets) for an audit client that is not a public interest entity for the purpose of preparing accounting entries. A factor that is relevant in evaluating the level of self-review threat created in addition to those in paragraph 604.3 A2, is whether the calculation might have a material effect on the financial statements on which the firm will express an opinion.

Commented [IESBA68]: 604.5 A2

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

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

Commented [IESBA69]: 604.5 A3

Audit Clients that are Public Interest Entities

R604.10 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity if such calculations will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Commented [IESBA70]: R604.6

C. Tax Advisory and Tax Planning Services

Description of Service

604.11 A1 Tax advisory and tax planning services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a tax law or regulation.

Commented [IESBA71]: 604.7 A2

Potential Threats Arising from the Provision of Tax Advisory and Tax Planning Services

All Audit clients

604.12 A1 Providing tax advisory and tax planning services might create 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. Such services might also create an advocacy threat.

Commented [IESBA72]: 604.7 A1

604.12 A2 Providing tax advisory and tax planning services, will not create a self-review threat if such services:

Commented [IESBA73]: New paragraph adapted from 604.7 A3

- (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.

604.12 A3 In addition to those identified in paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats, and evaluating the level of any such threats created by providing tax advisory and tax planning services to audit clients include:

Commented [IESBA74]: 604.7 A3

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements.
- Whether the tax treatment is supported by a ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.
- The extent to which the outcome of the tax advice might have a material effect on the financial statements.

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

R604.13 A firm or a network firm shall not provide tax advisory and tax planning services to an audit client when:

Commented [IESBA75]: R604.8

- (a) The effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements; and
- (b) The audit team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit Clients that are Not Public Interest Entities

604.14 A1 Examples of actions that might be safeguards to address threats arising from the provision of tax advisory and tax planning services to an audit client that is not a public interest entity include:

Commented [IESBA76]: 604.7 A4

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service, review the audit work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Audit Clients that are Public Interest Entities

Self-review Threats

R604.15 A firm or a network firm shall not provide tax advisory and tax planning services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Commented [IESBA77]: New paragraph

Advocacy threats

604.15 A1 Examples of actions that might be safeguards to address an advocacy threat created by tax advisory and tax planning services for an audit client that is a public interest entity include:

Commented [IESBA78]: New paragraph

- Using professionals who are not audit team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

D. Tax Services Involving Valuations

Description of Service

604.16 A1 The provision of tax services involving valuations can arise in a range of circumstances and include:

Commented [IESBA79]: New paragraph

- Merger and acquisition transactions.
- Group restructurings and corporate reorganizations.
- Transfer pricing studies.
- Stock-based compensation arrangements.

Potential Threats Arising from the Provision of Tax Services involving Valuations

All Audit Clients

604.17 A1 Providing valuation for tax purposes to an audit client might create 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. Such services might also create an advocacy threat.

Commented [IESBA80]: 604.9 A1

604.17 A2 When a firm or a network firm performs a valuation for tax purposes to assist an audit client with its tax reporting obligations or for tax planning purposes, the result of the valuation might:

Commented [IESBA81]: 604.9 A5

- (a) Have no effect on the accounting records or the financial statements other than through accounting entries related to tax. In such situations, the requirements and application material set out in this subsection apply.
- (b) Affect the accounting records or the financial statements in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets. In such situations, the requirements and application material set out in subsection 603 relating to valuation services apply.

Audit Clients that are Not Public Interest Entities

604.18 A1 A firm or a network firm might perform a valuation for tax purposes for an audit client that is not a public interest entity where the result of the valuation only affects the accounting records or the financial statements through accounting entries related to tax. This would not usually create threats if the effect on the financial statements is immaterial or the valuation is subject to external review by a tax authority or similar regulatory authority.

Commented [IESBA82]: 604.18 A1

604.18 A2 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the financial statements, in addition to those identified in paragraph 604.3 A2, the following factors are relevant in identifying self-review or advocacy threats, and evaluating the level of such threats, created by providing those services to an audit client that is not a public interest entity:

Commented [IESBA83]: 604.9 A3

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice.
- The degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

604.18 A3 Examples of actions that might be safeguards to address threats for an audit client that is not a public interest entity include:

Commented [IESBA84]: 604.9 A4

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Audit Clients that are Public Interest Entities

Self-review Threats

R604.19 A firm or a network firm shall not perform a valuation for tax purposes for a public interest entity if the provision of that service will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion, unless:

Commented [IESBA85]: New paragraph

- (a) The underlying assumptions are either established by law or regulation, or are widely accepted; or
 - (b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation,
- and the valuation is subject to external review by a tax authority or similar regulatory authority.

Advocacy Threats

604.19 A1 Examples of actions that might be safeguards to address an advocacy threat for an audit client that is a public interest entity include:

Commented [IESBA86]: New paragraph

- Using professionals who are not audit team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

E. Assistance in the Resolution of Tax Disputes

Description of Service

604.20 A1 A non-assurance service to provide assistance to an audit client in the resolution of tax disputes might arise from a tax authority's consideration of tax calculations and treatments. Such a service might include, for example, providing assistance when the tax authorities have notified the client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding before a tribunal or court.

Commented [IESBA87]: 604.10 A2

Potential Threats Arising from the Provision of Assistance in the Resolution of Tax Disputes

All Audit Clients

604.21 A1 Providing assistance in the resolution of a tax dispute to an audit client might create a self-review or advocacy threat.

Commented [IESBA88]: 604.10 A1

604.22 A1 In addition to those identified in paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats, and evaluating the level of any such threats, created by assisting an audit client in the resolution of tax disputes include:

Commented [IESBA89]: 604.10 A3

- The role management plays in the resolution of the dispute.
- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion.
- Whether the firm or network firm provided the advice that is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.
- Whether the proceedings are conducted in public.

Audit Clients that are Not Public Interest Entities

604.23 A1 Examples of actions that might be safeguards to address threats for an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or the service performed might address a self-review threat.

Commented [IESBA90]: 604.10 A4

Audit Clients that are Public Interest Entities

Self-review Threats

R604.24 A firm or a network firm shall not provide assistance in the resolution of tax disputes to an audit client that is a public interest entity if the provision of that assistance will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Commented [IESBA91]: New paragraph

Advocacy Threats

604.24 A1 An example of an action that might be a safeguard to address an advocacy threat for an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.

Commented [IESBA92]: New paragraph

Resolution of Tax Matters Including Acting as an Advocate before a Tribunal or Court

Audit Clients that are Not Public Interest Entities

R604.25 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit client that is not a public interest entity if:

- (a) The services involve acting as an advocate for the audit client before a tribunal or court in the resolution of a tax matter; and
- (b) The amounts involved are material to the financial statements on which the firm will express an opinion.

Commented [IESBA93]: R604.11

Audit Clients that are Public Interest Entities

R604.26 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit client that is a public interest entity if the services involve acting as an advocate for the audit client before a tribunal or court.

Commented [IESBA94]: New paragraph

604.27 A1 Paragraphs R604.25 and R604.26 do not preclude a firm or a network firm from having a continuing advisory role in relation to the matter that is being heard before a tribunal or court, for example:

Commented [IESBA95]: 604.11 A1

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analyzing the tax issues related to the matter.

604.27 A2 What constitutes a "tribunal or court" depends on how tax proceedings are heard in the particular jurisdiction.

Commented [IESBA96]: 604.11 A2

SUBSECTION 605 – INTERNAL AUDIT SERVICES

Introduction

605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.21 are relevant to applying the conceptual framework when providing an internal audit service to an audit client.

Commented [IESBA97]: 605.2

Requirements and Application Material

Description of Service

605.2 A1 Internal audit services comprise a broad range of activities and might involve assisting the audit client in the performance of one or more aspects of its internal auditing activities. Internal audit activities might include:

Commented [IESBA98]: 605.3 A1

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them.
- Examining financial and operating information by:
 - Reviewing the means used to identify, measure, classify and report financial and operating information.
 - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures.
- Reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity.
- Reviewing compliance with:
 - Laws, regulations and other external requirements.
 - Management policies, directives and other internal requirements.

605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of those charged with governance as well as the needs and expectations of management. As they might involve matters that are operational in nature, they do not necessarily relate to matters that will be subject to consideration in relation to the audit of the financial statements.

Commented [IESBA99]: 605.3 A2

Prohibition on Assuming Management Responsibility

R605.3 When providing an internal audit service to an audit client, the firm shall be satisfied that:

Commented [IESBA100]: R605.4

- (a) The client designates an appropriate and competent resource, who reports to those charged with governance to:
 - (i) Be responsible at all times for internal audit activities; and
 - (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;
- (b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;

- (c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

605.3 A1 Performing part of the client's internal audit activities increases the possibility that individuals within the firm or the network firm providing internal audit services will assume a management responsibility.

Commented [IESBA101]: 605.4 A1

605.3 A2 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. Examples of internal audit services that involve assuming management responsibilities include:

Commented [IESBA102]: 605.4 A1, 605.4 A2

- Setting internal audit policies or the strategic direction of internal audit activities.
- Directing and taking responsibility for the actions of the entity's internal audit employees.
- Deciding which recommendations resulting from internal audit activities to implement.
- Reporting the results of the internal audit activities to those charged with governance on behalf of management.
- Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network firm is responsible for determining the scope of the internal audit work; and might have responsibility for one or more of the matters noted above.

Potential Threats Arising from the Provision of Internal Audit Services

All Audit Clients

605.4 A1 Providing internal audit services to an audit client might create a self-review threat when the results of the services impact the audit of the financial statements on which the firm will express an opinion.

Commented [IESBA103]: 605.1

605.4 A2 When a firm uses the work of an internal audit function in an audit engagement, ISAs require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or a network firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This creates a self-review threat because it is possible that the audit team will use the results of the internal audit service for purposes of the audit engagement without:

Commented [IESBA104]: 605.4 A3

- (a) Appropriately evaluating those results; or

- (b) Exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

Audit Clients that are Not Public Interest Entities

605.5 A1 Factors that are relevant in identifying and evaluating the level of self-review threat created by providing internal audit services to an audit client that is not a public interest entity include:

- The materiality of the related financial statements amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.
- The degree of reliance that the audit team will place on the work of the internal audit service.

605.5 A2 An example of an action that might be a safeguard to address such a self-review threat is using professionals who are not audit team members to perform the service.

Audit Clients that are Public Interest Entities

R605.6 A firm or a network firm shall not provide internal audit services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

605.6 A1 Examples of the services that are prohibited under paragraph R605.6 include internal audit services that relate to:

- The internal controls over financial reporting.
- Financial accounting systems that generate information for the client's accounting records or financial statements on which the firm will express an opinion.
- Amounts or disclosures that relate to the financial statements on which the firm will express an opinion.

SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.21 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to an audit client.

Requirements and Application Material

Description of Service

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

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

Commented [IESBA105]: 605.4 A4

Commented [IESBA106]: 605.5 A5

Commented [IESBA107]: R605.5

Commented [IESBA108]: R605.5

Commented [IESBA109]: 606.2

Commented [IESBA110]: 606.3 A1

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

R606.3

Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an audit client, the firm or network firm shall be satisfied that:

Commented [IESBA111]: 606.3 A2

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- (c) The client makes all management decisions with respect to the design and implementation process;
- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

606.3 A1

Providing the following IT systems services to an audit client does not usually create a threat as long as individuals within the firm or network firm do not assume a management responsibility:

Commented [IESBA112]: 606.3 A2

- (a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;
- (b) Designing or implementing IT systems that do not generate information forming part of the accounting records or financial statements; and
- (c) Implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm or network firm, if the customization required to meet the client's needs is not significant.

Potential Threats Arising from the Provision of IT Systems Services

All Audit Clients

606.4 A1 Providing IT systems services to an audit client might create a self-review threat when the results of the services impact the audit of the financial statements on which the firm will express an opinion.

Audit Clients that are Not Public Interest Entities

606.5 A1

Factors that are relevant in identifying and evaluating the level of a self-review threat created by providing an IT systems service to an audit client that is not a public interest entity include:

Commented [IESBA113]: 606.4 A1

- The nature of the service.
- The nature of the client's IT systems and the extent to which the IT systems service impacts or interacts with the client's accounting records, internal controls over financial reporting or financial statements.

- The degree of reliance that will be placed on the particular IT systems as part of the audit.

606.5 A2 An example of an action that might be a safeguard to address such a self-review threat is using professionals who are not audit team members to perform the service.

Commented [IESBA114]: 606.4 A2

Audit Clients that are Public Interest Entities

R606.6 A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Commented [IESBA115]: R606.5

606.6 A1 Examples of services that are prohibited because they give rise to a self-review threat include those involving designing or implementing IT systems that:

Commented [IESBA116]: R606.5

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

SUBSECTION 607 – LITIGATION SUPPORT SERVICES

Introduction

607.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.21 are relevant to applying the conceptual framework when providing a litigation support service to an audit client.

Commented [IESBA117]: 607.2

Requirements and Application Material

Description of Service

607.2 A1 Litigation support services might include activities such as:

Commented [IESBA118]: 607.2 A1

- Assisting with document management and retrieval.
- Acting as a witness, including an expert witness.
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute.
- Forensic or investigative services.

Potential Threats Arising from the Provision of Litigation Support Services

All Audit Clients

607.3 A1 Providing litigation support services to an audit client might create a self-review threat when the results of the services affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

Commented [IESBA119]: 607.1

607.4 A1 Factors that are relevant in identifying self-review or advocacy threats, and evaluating the level of any such threats, created by providing litigation support services to an audit client include:

Commented [IESBA120]: 607.3 A2

- The legal and regulatory environment in which the service is provided.
- The nature and characteristics of the service.

- The extent to which the outcome of the litigation support service will involve estimating damages and other amounts that might have a material effect on the financial statements on which the firm will express an opinion.

607.4 A2 If a firm or a network firm provides a litigation support service to an audit client and the service involves estimating damages or other amounts that affect the financial statements on which the firm will express an opinion, the requirements and application material set out in Subsection 603 related to valuation services apply.

Commented [IESBA121]: 607.3 A4

Audit Clients that are Not Public Interest Entities

607.5 A1 An example of an action that might be a safeguard to address such a self-review or advocacy threat for an audit client that is not a public interest entity is using a professional who was not an audit team member to perform the service.

Commented [IESBA122]: 607.3 A3

Audit Clients that are Public Interest Entities

Self-review Threats

R607.6 A firm or a network firm shall not provide litigation support services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Commented [IESBA123]: New paragraph

607.6 A1 An example of a service that is prohibited because it gives rise to a self-review threat is providing advice in connection with a legal proceeding which affects the quantification of any provision in the financial statements on which the firm will express an opinion.

Commented [IESBA124]: New paragraph

Advocacy Threats

607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing litigation support services to an audit client that is a public interest entity is using a professional who was not an audit team member to perform the service.

Commented [IESBA125]: New paragraph

Acting as a Witness

607.7 A1 A professional within the firm or the network firm might give evidence to a tribunal or court as a witness of fact or as an expert witness.

Commented [IESBA126]: New paragraph

- (a) A witness of fact is an individual who gives evidence to a tribunal or court based on his or her direct knowledge of facts or events in dispute.
- (b) An expert witness is an individual who gives evidence, including opinions on matters relevant to the dispute, to a tribunal or court based on that individual's expertise.

607.7 A2 A threat to independence is not created when an individual, in relation to a dispute that involves an audit client, acts as a witness of fact and in the course of doing so provides an opinion within the individual's area of expertise in response to a question asked in the course of giving factual evidence.

Commented [IESBA127]: New paragraph

607.7 A3 An advocacy threat is created when a firm or a network firm or an individual within a firm or a network firm, is engaged to act as an expert witness to give evidence before a tribunal or court on behalf of an audit client. No such advocacy threat is created if a firm or a network firm, or an individual within a firm or a network firm, is appointed by a tribunal or court to act as an expert witness in a dispute involving a client.

Commented [IESBA128]: New paragraph

Audit Clients that are Not Public Interest Entities

607.8 A1 An example of an action that might be a safeguard to address an advocacy threat for an audit client that is not a public interest entity is using a professional to perform the service who is not, and has not been an audit team member.

Commented [IESBA129]: 607.3 A3

Audit Clients that are Public Interest Entities

R607.9 A firm or a network firm or a network firm or an individual within a firm or a network firm, shall not act as an expert witness in a dispute involving an audit client that is a public interest entity unless appointed by a tribunal or court.

Commented [IESBA130]: New paragraph

SUBSECTION 608 – LEGAL SERVICES

Introduction

608.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.21 are relevant to applying the conceptual framework when providing a legal service to an audit client.

Commented [IESBA131]: 608.2

Requirements and Application Material

Description of Service

608.2 A1 Legal services are defined as any services for which the individual providing the services must either:

Commented [IESBA132]: 608.3 A1

- (a) Have the required legal training to practice law; or
- (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

608.2 A2 This subsection deals specifically with:

Commented [IESBA133]: New paragraph

- Providing legal advice.
- Acting as general counsel.
- Acting in an advocacy role.

Potential Threats Arising from Providing Legal Services

All Audit clients

608.3 A1 Providing legal services to an audit client might create a self-review threat when the results of the services affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

Commented [IESBA134]: 608.1

A. Providing Legal Advice

Description of Service

608.4 A1 Depending on the jurisdiction, providing legal advice might include a wide and diversified range of service areas including both corporate and commercial services to audit clients, such as:

Commented [IESBA135]: 608.4 A1

- Contract support.

- Supporting an audit client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting an audit client's internal legal department.
- Legal due diligence and restructuring.

Potential Threats Arising from Providing Legal Advice

Audit Clients that are Not Public Interest Entities

608.5 A1 Factors that are relevant in identifying self-review or advocacy threats, and evaluating the level of any such threats, created by providing legal advice to an audit client that is not a public interest entity include:

Commented [IESBA136]: 608.4 A2

- The materiality of the specific matter in relation to the client's financial statements.
- The complexity of the legal matter and the degree of judgment necessary to provide the service.

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

Commented [IESBA137]: 608.4 A3

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

Audit Clients that are Public Interest Entities

Self-review Threats

R608.6 A firm or a network shall not provide legal advice to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Commented [IESBA138]: New paragraph

608.6 A1 Examples of legal advice that might create such a self-review threat are:

- Estimating a potential loss arising from a lawsuit for the purpose of recording a provision in the client's financial statements.
- Interpreting provisions in contracts that might give rise to liabilities reflected in the client's financial statements.

Commented [IESBA139]: New paragraph

Advocacy Threats

608.6 A2 The provisions in paragraphs 608.5 A1 and 608.5 A2 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advisory services to an audit client that is a public interest entity.

Commented [IESBA140]: New paragraph

B. Acting as General Counsel

All Audit Clients

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

Commented [IESBA141]: R608.5

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

Commented [IESBA142]: 608.5 A1

C. Acting in an Advocacy Role

Potential Threats Arising from Acting in an Advocacy Role Before a Tribunal or Court

Audit Clients that are Not Public Interest Entities

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

Commented [IESBA143]: R608.6

608.8 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for an audit client that is not a public interest entity include:

Commented [IESBA144]: 608.6 A1

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

Audit Clients that are Public Interest Entities

R608.9 A firm or a network firm shall not act in an advocacy role for an audit client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

Commented [IESBA145]: New paragraph

SUBSECTION 609 – RECRUITING SERVICES

Introduction

609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.21 are relevant to applying the conceptual framework when providing a recruiting service to an audit client.

Commented [IESBA146]: 609.2

Requirements and Application Material

Description of Service

609.2 A1 Recruiting services might include activities such as:

Commented [IESBA147]: 609.3 A1

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

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

Potential Threats Arising from Providing Recruiting Services

All Audit Clients

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

Commented [IESBA148]: 609.1

R609.4 When a firm or a network firm provides recruiting services to an audit client, the firm shall be satisfied that:

Commented [IESBA149]: R609.4

- (a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
- (b) The client makes all management decisions with respect to the hiring process, including:
 - Determining the suitability of prospective candidates and selecting suitable candidates for the position.
 - Determining employment terms and negotiating details, such as salary, hours and other compensation.

609.4 A1 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. Providing the following services does not usually create a threat as long as individuals within the firm or the network firm do not assume a management responsibility:

Commented [IESBA150]: 609.3 A2

- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
- Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions.

609.4 A2 Factors that are relevant in identifying self-interest, familiarity or intimidation threats, and evaluating the level of any such threats created by providing recruiting services to an audit client include:

Commented [IESBA151]: 609.5 A1

- The nature of the requested assistance.
- The role of the individual to be recruited.
- Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.

609.4 A3 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not audit team members to perform the service.

Commented [IESBA152]: 609.5 A2

Recruiting Services that are Prohibited

R609.5 When providing recruiting services to an audit client, the firm or the network firm shall not act as a negotiator on the client's behalf.

Commented [IESBA153]: R609.6

R609.6 A firm or a network firm shall not provide a recruiting service to an audit client if the service relates to:

Commented [IESBA154]: R609.7

- (a) Searching for or seeking out candidates; or
- (b) Undertaking reference checks of prospective candidates, with respect to the following positions:
 - (i) A director or officer of the entity; or
 - (ii) A member of senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion.

SUBSECTION 610 – CORPORATE FINANCE SERVICES

Introduction

610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to R600.21 are relevant to applying the conceptual framework when providing a corporate finance service to an audit client.

Commented [IESBA155]: 610.2

Requirements and Application Material

Description of Service

610.2 A1 Examples of corporate finance services include:

Commented [IESBA156]: 610.3 A1

- Assisting an audit client in developing corporate strategies.
- Identifying possible targets for the audit client to acquire.
- Advising on the potential purchase or disposal price of an asset.
- Performing due diligence in relation to potential acquisitions and disposals.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements.

Potential Threats Arising from the Provision of Corporate Finance Services

All Audit Clients

610.3 A1 Providing corporate finance services to an audit client might create a self-review threat when the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

Commented [IESBA157]: 610.1

610.4 A1 Factors that are relevant in identifying self-review or advocacy threats, and evaluating the level of any such threats, created by providing corporate finance services to an audit client include:

Commented [IESBA158]: 610.3 A2

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements.
- The extent to which:
 - The outcome of the corporate finance advice will directly affect amounts recorded in the financial statements.
 - The outcome of the corporate finance service might have a material effect on the financial statements.
- Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Corporate Finance Services that are Prohibited

R610.5 A firm or a network firm shall not provide corporate finance services to an audit client that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the audit client.

Commented [IESBA159]: R610.4

When effectiveness of corporate finance advice is dependent on a particular accounting treatment or presentation

R610.6 A firm or a network firm shall not provide advice in relation to corporate finance services to an audit client where:

Commented [IESBA160]: R610.5

- (a) The effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion; and
- (b) The audit team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit Clients that are Not Public Interest Entities

610.7 A1 Examples of actions that might be safeguards to address threats arising from providing corporate finance services to an audit client that is not a public interest entity include:

Commented [IESBA161]: 610.3 A3

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.

- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

Audit Clients that are Public Interest Entities

Self-review Threats

R610.8 A firm or a network firm shall not provide corporate finance services to an audit client that is a public interest entity if the provision of such services will create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion.

Commented [IESBA162]: New paragraph

Advocacy Threats

610.8 A1 An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance services to an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.

Commented [IESBA163]: New paragraph

II. Chapter 2 of NAS ED – Proposed Conforming Amendments to Section 400

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Section 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDITS AND REVIEWS

...

General

...

Requirements and Application Material

...

General

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

Commented [IESBA164]: R400.11

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

Commented [IESBA165]: R400.12

Prohibition on Assuming Management Responsibilities

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

Commented [IESBA166]: R600.7

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

Commented [IESBA167]: 600.7 A1

400.13 A2 When a firm or a network firm assumes a management responsibility for an audit client, self-

Commented [IESBA168]: 600.7 A2

review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interest of management.

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

Commented [IESBA169]: 600.7 A3

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
 - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - Designing, implementing, monitoring or maintaining internal control.

400.13 A4 Subject to compliance with paragraph R400.14, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility.

Commented [IESBA170]: 600.7 A4

R400. 14 When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

Commented [IESBA171]: R600.8

(a) Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:

- (i) The objectives, nature and results of the activities; and
- (ii) The respective client and firm or network firm responsibilities.

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

(b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.

(c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

[Paragraphs 400.15 to 400.19 are intentionally left blank]

Related Entities

R400.20 As defined, an audit client that is a listed entity includes all of its related entities. For all other

Commented [IESBA172]: R400.20

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

[Paragraphs 400.21 to 400.29 are intentionally left blank]

Period During which Independence is Required

All Audit Clients

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

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

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

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

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

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

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

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

Audit Clients that are Public Interest Entities

R400.32 A firm shall not accept appointment as auditor of a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that would create a self-review threat in relation to the financial statements on which the firm will express an opinion unless the provision of such service has ceased and:

- (a) The results of the service were subject to auditing procedures in the course of the audit of the prior year's financial statements by a predecessor firm;
- (b) The firm engages a professional accountant, who is not a member of the firm expressing

Commented [IESBA173]: R400.30

Commented [IESBA174]: 400.30 A1

Commented [IESBA175]: R400.31

Commented [IESBA176]: 400.31 A1

Commented [IESBA177]: 400.31 A2

Commented [IESBA178]: New paragraph

the opinion on the financial statements to perform a review of the first audit engagement affected by the self-review threat that is equivalent to an engagement quality review; or

- (c) The public interest entity engages another firm to:
 - (i) Evaluate the results of the non-assurance service; or
 - (ii) Re-perform the service,

in either case, to the extent necessary to enable the other firm to take responsibility for the result of the service.

[Paragraphs 400.33 to 400.39 are intentionally left blank]

III. Chapter 3 of NAS ED – Proposed Consequential Amendments to Section 950

PART 4B – INTERNATIONAL INDEPENDENCE STANDARDS ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

...

SECTION 950

PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS OTHER THAN AUDIT AND REVIEW CLIENTS

Introduction

- 950.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence.
- 950.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to assurance clients.

Commented [IESBA179]: 950.1

Commented [IESBA180]: 950.2

Commented [IESBA181]: 950.3 A1

Requirements and Application Material

General

- 950.4 A1 New business practices, the evolution of financial markets and changes in technology are among the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client. As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to an assurance client.

Commented [IESBA182]: 950.3 A2

Accepting an Engagement to Provide a Non-Assurance Service

R950.5 Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

Commented [IESBA183]: R950.3

Identifying and Evaluating Threats

950.6 A1 A description of the categories of threats that might arise when a firm provides a non-assurance service to an assurance client is set out in 120.6 A3.

Commented [IESBA184]: New paragraph

950.6 A2 Factors that are relevant in identifying and evaluating threats created by providing a non-assurance service to an assurance client include:

Commented [IESBA185]: 950.4 A1

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- Whether the outcome of the service will affect the underlying subject matter and, in an attestation engagement, matters reflected in the subject matter information of the assurance engagement, and, if so:
 - The extent to which the outcome of the service will have a material or significant effect on the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement.
 - The extent to which the assurance client determines significant matters of judgment (Ref: Para. R900.13 to R900.14).
- The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
- The fees relating to the provision of the non-assurance services.

Multiple Non-assurance Services Provided to the Same Assurance Client

950.7 A1 A firm might provide multiple non-assurance services to an assurance client. In these circumstances the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

Commented [IESBA186]: 950.4 A3

Self-Review Threats

950.8 A1 A self-review threat might be created if, in an attestation engagement, the firm is involved in the preparation of subject matter information which subsequently becomes the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter information of an assurance engagement include:

Commented [IESBA187]: 950.8 A1

- (a) Developing and preparing prospective information and subsequently issuing an assurance report on this information.

- (b) Performing a valuation that is related to or forms part of the subject matter information of an assurance engagement.

Assurance clients that are public interest entities

950.9 A1 Expectations about a firm's independence are heightened when an assurance engagement is undertaken by a firm for a public interest entity and the results of that engagement will be:

Commented [IESBA188]: New paragraph

- (a) Made available publicly, including to shareholders and other stakeholders; or
- (b) Provided to an entity or organization established by law or regulation to oversee the operation of a business sector or activity.

Consideration of these expectations form part of the reasonable and informed third party test applied when determining whether to provide a non-assurance service to an assurance client.

950.9 A2 If a self-review threat exists in relation to an engagement undertaken in the circumstances described in paragraph 950.9 A1 (b), the firm is encouraged to disclose to the intended user of the information the existence of a self-review threat to independence and the steps taken to address it.

Commented [IESBA189]: New paragraph

Materiality in Relation to an Assurance Client's Information

950.10 A1 The concept of materiality in relation to an assurance client's subject matter information is addressed in *International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

Commented [IESBA190]: 950.4 A2

Addressing Threats

950.11 A1 Paragraphs 120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

Commented [IESBA191]: 950.5 A1

950.11 A2 Threats to independence created by providing a non-assurance service or multiple services to an assurance client vary depending on facts and circumstances of the assurance engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

Commented [IESBA192]: New paragraph

Commented [IESBA193]: New paragraph

950.11 A3 Examples of actions that might be safeguards to address such threats include:

Commented [IESBA194]: New paragraph

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

950.11 A4 Safeguards might not be available to reduce the threat created by providing a non-assurance service to an assurance client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm to:

Commented [IESBA195]: New paragraph

- (a) Adjust the scope of the proposed service to eliminate to the circumstances that are creating the threat;
- (b) Decline or end the service that creates the threat that cannot be eliminated or reduced

- to an acceptable level; or
- (c) End the assurance engagement.

IV. Chapter 4 of NAS ED – Proposed Conforming Amendments to Section 900

PART 4B – INTERNATIONAL INDEPENDENCE STANDARDS ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

Section 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

...

Requirements and Application Material

General

- R900.11** A firm performing an assurance engagement shall be independent of the assurance client.
- 900.11 A1 For the purposes of this Part, the assurance client in an assurance engagement is the responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).
- 900.11 A2 The roles of the parties involved in an assurance engagement might differ and affect the application of the independence provisions in this Part. In the majority of attestation engagements, the responsible party and the party taking responsibility for the subject matter information are the same. This includes those circumstances where the responsible party involves another party to measure or evaluate the underlying subject matter against the criteria (the measurer or evaluator) where the responsible party takes responsibility for the subject matter information as well as the underlying subject matter. However, the responsible party or the engaging party might appoint another party to prepare the subject matter information on the basis that this party is to take responsibility for the subject matter information. In this circumstance, the responsible party and the party responsible for the subject matter information are both assurance clients for the purposes of this Part.
- 900.11 A3 In addition to the responsible party and, in an attestation engagement, the party taking responsibility for the subject matter information, there might be other parties in relation to the engagement. For example, there might be a separate engaging party or a party who is a measurer or evaluator other than the party taking responsibility for the subject matter information. In these circumstances, applying the conceptual framework requires the professional accountant to identify and evaluate threats to the fundamental principles created by any interests or relationships with such parties, including whether any conflicts of interest might exist as described in Section 310.
- R900.12** A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

Commented [IESBA196]: R900.11

Commented [IESBA197]: 900.11 A1

Commented [IESBA198]: 900.11 A2

Commented [IESBA199]: 900.11 A3

Commented [IESBA200]: R900.12

Prohibition on Assuming Management Responsibilities

R900.13 A firm shall not assume a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement provided by the firm.

Commented [IESBA201]: R950.6

900.13 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

Commented [IESBA202]: 950.6 A1

900.13 A2 When a firm assumes a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

Commented [IESBA203]: 950.6 A2

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

Commented [IESBA204]: 950.6 A3

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

900.13 A4 Subject to compliance with paragraph R900.14, providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility.

Commented [IESBA205]: 950.6 A4

R900.14 When performing a professional activity for an assurance client that is related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

Commented [IESBA206]: R950.7

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

- (ii) The respective client and firm responsibilities.

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

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

Multiple Responsible Parties and Parties Taking Responsibility for the Subject Matter Information

900.14 A1 In some assurance engagements, whether an attestation engagement or direct engagement, there might be several responsible parties or, in an attestation engagement, several parties taking responsibility for the subject matter information. In determining whether it is necessary to apply the provisions in this Part to each individual responsible party or each individual party taking responsibility for the subject matter information in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party or party taking responsibility for the subject matter information would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

Commented [IESBA207]: 900.13 A1

- (a) The materiality of the underlying subject matter or subject matter information for which the particular party is responsible in the context of the overall assurance engagement.
- (b) The degree of public interest associated with the assurance engagement.

If the firm determines that the threat created by any such interest or relationship with a particular party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of this section to that party.

Network Firms

R900.15 When a firm knows or has reason to believe that interests and relationships of a network firm create a threat to the firm's independence, the firm shall evaluate and address any such threat.

Commented [IESBA208]: R900.14

900.15 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

Commented [IESBA209]: 900.14 A1

Related Entities

R900.16 When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

Commented [IESBA210]: R900.15

[Paragraphs 900.17 to 900.29 are intentionally left blank]

Period During which Independence is Required

R900.30 Independence, as required by this Part, shall be maintained during both:

Commented [IESBA211]: R900.30

- (a) The engagement period; and
- (b) The period covered by the subject matter information.

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

Commented [IESBA212]: 900.30 A1

R900.31 If an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:

Commented [IESBA213]: R900.31

- (a) Financial or business relationships with the assurance client during or after the period covered by the subject matter information but before accepting the assurance engagement; or
- (b) Previous services provided to the assurance client.

R900.32 Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the assurance team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.

Commented [IESBA214]: R900.32

900.32 A1 Examples of actions that might be safeguards to address such threats include:

Commented [IESBA215]: 900.32 A1

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer review the assurance or non-assurance work as appropriate.

R900.33 If a non-assurance service that would not be permitted during the engagement period has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:

Commented [IESBA216]: R900.33

- (a) The firm is satisfied that:
 - (i) The non-assurance service will be completed within a short period of time; or
 - (ii) The client has arrangements in place to transition the service to another provider within a short period of time;
- (b) The firm applies safeguards when necessary during the service period; and
- (c) The firm discusses the matter with those charged with governance.

Communication with Those Charged With Governance

900.34 A1 Paragraphs R300.9 to 300.9 A2 set out requirements and application material for communicating with those charged with governance.

Commented [IESBA217]: New paragraph

EXPOSURE DRAFT: NAS

900.34 A2 Communication with those charged with governance might be appropriate when significant judgments are made, and conclusions reached, to address threats to independence in relation to an assurance engagement because the subject matter information of that engagement is the outcome of a previously performed non-assurance service.

Commented [IESBA218]: New paragraph

[Paragraphs 900.35 to 900.39 are intentionally left blank]

COPYRIGHT, TRADEMARK, AND PERMISSIONS INFORMATION

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 © January 2020 by the International Federation of Accountants (IFAC). All rights reserved. Permission is granted to make copies of this work to achieve maximum exposure and feedback provided that each copy bears the following credit line: "*Copyright © January 2020 by the International Federation of Accountants (IFAC). All rights reserved. Used with permission of IFAC. Permission is granted to make copies of this work to achieve maximum exposure and feedback.*"

COPYRIGHT, TRADEMARK, AND PERMISSIONS INFORMATION

Published by:  International
Federation
of Accountants®



**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