IESBA International Ethics Standards Board for Accountants®

Staff Questions & Answers | July 2022

Revised Non-Assurance Services Provisions of the Code

Guidance for Professional Accountants in Public Practice in Relation to Audits of Financial Statements of Public Interest Entities

General Prohibitions and Applying the Conceptual Framework to Non-Assurance Services (NAS)

Q1. Section 600 (Revised) includes provisions (i.e., requirements and application material) that specifically address the ethics and independence considerations when providing NAS to audit clients. Are there other provisions in the Code that apply in such circumstances?

A. Compliance with the International Independence Standards when providing NAS to audit clients requires knowledge, understanding and the application of all the relevant provisions that apply to all professional accountants in Part 1 of the Code, together with the additional provisions for professional accountants in public practice (PAPPs) in Part 3 of the Code, and the independence provisions in Part 4A of the Code relating to audit and review engagements. This means that firms and network firms providing NAS to audit clients must comply with:

- The general principles-based requirements contained in the Code.[2] Among other matters, these prohibit the provision of:
  - (a) NAS that involve assuming a management responsibility (paragraph R400.13); or
  - (b) NAS that create a threat to independence[3] that is not at an acceptable level and cannot be addressed by:[4]
    - Eliminating the circumstance creating the threat (e.g., the proposed service cannot be restructured or its scope otherwise revised); (see Q7) or
    - Applying safeguards (e.g., using professionals who are not audit team members to perform the NAS), where available and capable of being applied, to reduce the threats to independence to an acceptable level.
- The requirements (including prohibitions) applicable to the provision of NAS are set out in Section 600 and, in regard to specific types of NAS, in subsections 601 to 610.

In addition to the above, firms are reminded that Part 2 of the Code applies in certain circumstances, for example, in relation to pressure to breach the fundamental principles (see paragraphs R120.4 and R300.5).

1. The revised NAS provisions will become effective for audits of financial statements for periods beginning on or after December 15, 2022. They replace Section 600, *Provision of Non-Assurance Services* to an Audit Client and include, among others, consequential revisions to Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements* and Section 525, *Temporary Personnel Assignments.*
2. A high-level overview of the prohibitions in the Code, Summary of Prohibitions Applicable to Audits of Public Interest Entities is available on the IESBA website.
3. The categories of threats to compliance with the fundamental principles in 120.6 A3 are also the categories of threats to independence.
4. See paragraphs R120.10 to 120.10 A2 and 600.18 A1 to 600.18 A4.

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This Questions and Answers (Q&A) publication is issued by the Staff of the International Ethics Standards Board for Accountants® (IESBA®). It is intended to assist national standard setters, professional accountancy organizations, and professional accountants in public practice (including firms) as they adopt and implement the revisions to the NAS provisions[1] of the IESBA *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code). The IESBA issued the NAS pronouncement in April 2021.

This publication is designed to highlight, illustrate or explain aspects of the revised NAS provisions in the Code that apply to audit clients that are public interest entities (PIEs), and thereby assist in their proper application. Following the finalization of the Technology-related revisions to the Code, IESBA Staff will consider the need to develop additional NAS guidance.

This publication does not amend or override the Code, the text of which alone is authoritative. Reading the Q&As is not a substitute for reading the Code. The Q&As are not intended to be exhaustive and reference to the Code itself should always be made. This publication does not constitute an authoritative or official pronouncement of the IESBA.

Q2. Section 400 of the Code prohibits firms and network firms from assuming management responsibility for an audit client. What specific guidance does the Code provide in relation to assuming management responsibility when providing a NAS to an audit client?

A. A firm or a network firm is prohibited from assuming a management responsibility for an audit client (paragraph R400.13). The Code specifies that 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 (paragraph 400.13 A1).

The IESBA moved the prohibition from Section 600 to Section 400 so that it is clear that the prohibition on assuming management responsibilities applies to all aspects of the relationship between a firm or a network firm and an audit client, and not only in the case of the provision of a NAS.

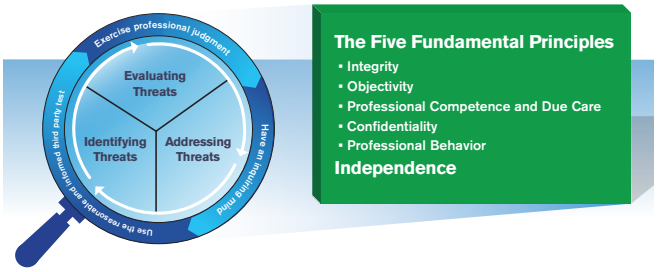
Firms and network firms should be especially alert when assisting and advising audit clients to avoid situations that involve assuming a management responsibility. To assist firms, the Code identifies:

- General activities that would be considered a management responsibility and prohibited for all audit clients (see paragraph 400.13 A3).
- Specific types of NAS that involve or might result in assuming a management responsibility (see, for example, paragraphs 605.3 A2 and 608.5 A3 respectively).
- Specific types of NAS that do not usually create a threat to independence as long as individuals within the firm or network firm do not assume a management responsibility (see paragraphs 602.3 A1, 604.6 A1, 606.4 A2 and 609.4 A2).

Q3. The Code's conceptual framework in Section 120 specifies the approach to be taken when identifying, evaluating, and addressing threats to (i) compliance with the fundamental principles, and (ii) in the case of audits, reviews and other assurance engagements, compliance with the International Independence Standards. Do firms and network firms still need to apply the conceptual framework when providing a NAS to a PIE audit client?

A. Yes. Having established that an engagement to provide a NAS is not expressly prohibited under the revised NAS provisions, a firm or network firm is still required to apply the conceptual framework irrespective of whether the audit client is a PIE or a non-PIE (paragraph R600.8). That is because the provision of the NAS might create a threat to compliance with the fundamental principles and threats to independence that would need to be evaluated and addressed. The application of the conceptual framework, which involves having an inquiring mind, exercising professional judgment, and using a reasonable and informed third party test, helps in the determination of whether a threat is not at an acceptable level.

The Conceptual Framework



The revised NAS provisions emphasize the continuing applicability of the overarching principles in the Code's conceptual framework. For example, consistent with paragraph R120.10, the revised NAS provisions emphasize that *safeguards might not be available to reduce threats to independence arising from the provision of a NAS to an audit client to an acceptable level* (paragraph 600.18 A4).

Firms and network firms are prohibited from assuming a management responsibility for an audit client. In the case of audit clients that are PIEs, they are prohibited from providing a NAS that might create a self-review threat (see Q9).

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 (paragraph R400.14). The Code emphasizes the importance of this requirement when providing internal audit, IT systems and recruiting services to audit clients (see R605.3, R606.3 and R609.3).

Q4: What specific guidance does the Code now provide to help firms in identifying and evaluating threats to independence in relation to NAS provided to audit clients?

A. The IESBA has introduced new provisions to assist firms and network firms in consistently identifying and evaluating threats to independence that might be created by providing a NAS to an audit client. In particular, the Code now provides examples of:

- Factors that are relevant in identifying the different threats to independence that might be created by providing a NAS to an audit client and evaluating the level of such threats (paragraph 600.9 A2) (see Q5).
- Factors to assist in identifying threats to independence arising from the provision of specific types of services, and in evaluating the level of such threats (subsections 603 to 610).[5]
- Additional factors that are relevant in evaluating threats arising from the provision of multiple NAS to the same audit client (paragraph 600.12 A1; see also Q8).

In relation to the prohibition on the provision of NAS that might create a self-review threat in the case of audit clients that are PIEs, the IESBA has provided guidance to help firms in determining whether a threat to independence relates to self-review (see Q9).

Q5. The Code provides examples of factors that are relevant in identifying the different threats to independence that might be created by providing a NAS to an audit client and evaluating the level of such threats. Do all the factors carry equal weight?

A. No. Depending on the particular facts and circumstances, certain factors may be given more weight than others or may not be applicable. For example, if the audit client is a PIE, the extent to which the outcome of the NAS will have a material effect on the financial statements *would not* be a relevant factor in evaluating the level of a self-review threat. This is because in the case of a PIE audit client, once the firm determines that a NAS might create a self-review threat (by applying paragraph R600.14), that NAS would be prohibited (paragraph R600.16).

Q6. Are there examples of safeguards to address threats created by the provision of NAS to an audit client?

A. Yes. The general NAS provisions of the Code provide examples of safeguards and other actions that might be applied to address the different threats to independence that might be created by providing a NAS to an audit client (paragraphs 600.18 A3 and 600.18 A4).

Paragraph 600.18 A3 provides examples of actions that might be safeguards to address threats to independence more generally. Subsections 601 to 610 contain examples of actions that might be safeguards to address threats arising from the provision of specific types of services.

Firms and network firms that provide NAS to PIE audit clients are reminded to pay particular attention to independence in appearance. The reasonable and informed third party test (paragraph 120.5 A6) is of particular relevance in considering heightened stakeholder expectations of auditor independence with respect to PIE audit clients.

Q7. Does the Code provide examples of actions, other than safeguards, to address threats created by the provision of NAS to an audit client?

A. Yes. The Code notes that, in some situations, it might be possible for a firm or a network firm to adjust the scope of a proposed NAS to eliminate the circumstances creating the threat (sub-paragraph 600.18 A4 (a)), or to remove elements that are prohibited.

However, the IESBA noted that making changes to a NAS in a manner that does not represent the true substance of the engagement, for example, by nominating another entity as the party engaging the audit firm, would be a breach of the fundamental principles of integrity and professional behavior.

5. See paragraphs 603.3 A2 for valuation services; 604.3 A2, 604.12 A3, 604.18 A2, 604.22 A1 for tax services; 605.4 A3 for internal audit services; 606.4 A3 for IT systems services; 607.4 A1 for litigation support services; 608.5 A1 for legal services; 609.4 A3 for recruiting services; and 610.4 A1 for corporate finance services.

Q8. If a firm provides multiple NAS to the same audit client, are there any additional considerations concerning threats?

A. Under the Code, a firm or a network firm is required to consider whether the combined effect of providing multiple services to the same audit client creates or impacts threats to independence (in addition to the threats created by each NAS individually) (paragraph R600.12). The Code provides additional examples of factors relevant to evaluating the level of such threats (paragraph 600.12 A1).

Where a firm provides multiple NAS to an audit client, threats to independence might be created. For example:

- A familiarity threat might be created from the increased interaction between the firm and those responsible for the audit client's financial reporting.
- A self-interest threat might arise due to the significance of the fee income from the multiple NAS provided to the audit client.

In addition, there might be an interaction between the multiple NAS being provided, which might affect the evaluation of previously identified threats to independence. For example, a firm's first NAS to an audit client that is a PIE involved the development of systems to manage the quality of spare parts for products manufactured by one business unit. If that NAS was subsequently expanded to include the development of systems of quality management for all the audit client's business units, the provision of the additional NAS to that audit client would require the firm or network firm to re-evaluate the threats that might be created by providing both NAS engagements. Those threats might include self-interest (for example, due to the level of fees involved), self-review and familiarity threats to independence (see also Q7 to Q10 of the Fees FAQ publication).

In such circumstances, it would be important for firms and network firms to be mindful of threats to independence of mind and in appearance.

Applying Provisions Relating to a Self-review Threat to Independence, Including When Providing Advice and Recommendations to an Audit Client

Q9. Section 600, paragraph R600.14, specifies how firms and network firms are to determine whether the provision of a NAS might create a self-review threat to independence ("two prong test"). In particular, it notes that before providing a NAS to an audit client, a firm or a network firm shall determine whether the provision of that NAS might create a self-review threat by evaluating whether there is a risk that:

(a) The results of the NAS will form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion; and

(b) In the course of the audit of those financial statements on which the firm will express an opinion, the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm when providing the NAS.

Are firms to apply both elements of the above "two-prong" test in determining whether a self-review threat might be created? How should a firm or a network firm interpret the terms "form part of" and "affect" in subparagraph R600.14(a)?

A. The "two prong test" in paragraph R600.14 of the Code provides additional direction to help firms and network firms determine whether a self-review threat to independence might arise from the provision of a NAS to an audit client.

- *Might create versus will create.*

  The phase "…whether the provision of that service ***might create*** a self-review threat…" in the introductory wording of paragraph R600.14 is intended to convey a clear threshold. The words "…*whether* ***there is a risk that***…" explain what the threshold means and how it should be applied. In determining **whether** the proposed NAS *might create a self-review threat* to independence, the firm or network firm will need to consider whether there is any possibility that the circumstances set out in each subparagraph will arise. The IESBA settled on the threshold of "might create" instead of "will create" to reduce the possibility that a firm or network firm might breach the self-review threat prohibition on NAS in paragraph R600.16 because the firm incorrectly concluded that the proposed NAS will not create a self-review threat when in fact its assessment should have led it to conclude that there would be a risk of self-review, even if such risk is remote (see paragraph 47(a) of the NAS Basis for Conclusions).

- *Proper Application of the Two-Prong Test.*

  Considering whether a proposed NAS might create a self-review threat involves an assessment of whether there is a risk that the proposed NAS will give rise to the circumstances in subparagraphs R600.14 (a) and (b) *[emphasis added]*. In the case of audit clients that are PIEs, if there is a risk that the circumstances in each sub-paragraph will arise, then paragraph R600.16 applies, and provision of the proposed NAS is prohibited.

  Further, under the Code's drafting conventions, the use of a lettered list in paragraph R600.14 means that the considerations in subparagraphs (a) and (b) apply and need to be satisfied together (see paragraph 47(b) of the NAS Basis for Conclusions).

A firm or network firm may provide advice and recommendations to an audit client that is a PIE if the advice and recommendations:

(a) Do not involve assuming a management responsibility; and (paragraph R400.13)

(b) Do not give rise to a risk of a self-review threat (paragraphs R600.14 and R600.16).

However, the firm or network firm is still required to apply the conceptual framework to identify, evaluate and address threats other than those relating to self-review.

- *Meaning of "Form Part Of" and "Affect."*

  The words "…***form part of***…" and "***affect***" are self-explanatory, with meanings derived from the dictionary. In particular, the dictionary definition of the word "affect" is "to have an effect on" or "to make a difference to" which was the IESBA's intention in using that term.

  Where a firm proposes to provide a NAS to an audit client, the firm considers the potential for interaction between the work involved in undertaking the proposed NAS, which may include advice and recommendations, and the information that it can foresee considering in the course of the audit insofar as the accounting records, internal controls over financial reporting and the financial statements are concerned.

  When doing so, the firm is expected to apply the conceptual framework and the provisions in Section 600 to determine whether, in its professional judgment, there is a risk that the results of the proposed NAS will ***form part of or affect*** the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion.

It is important that the relevant teams exercise appropriate professional judgment in determining: (i) whether there is a risk that the results of a NAS will form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements, and (ii) in the course of the audit, there is a risk that the audit team will evaluate or rely on any judgments made or activities performed by the firm or network firm when providing the NAS. Accordingly, firms and network firms might wish to put in place policies, procedures, and training programs to help promote consistent application of subparagraph R600.14(a) as well as paragraph R600.14 overall. In doing so, the considerations set out above are of particular importance. See also Q10-Q14.

Q10. Section 400, paragraph 400.13 A4, notes that, 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. Section 600 indicates that the self-review threat prohibition applies in the case of PIE audit clients, except in limited circumstances. Does the provision of advice and recommendations to a PIE audit client always give rise to a risk of self-review threat with the consequence that advice and recommendations may not be provided to PIE audit clients?

A. No. Paragraph 600.11 A1 establishes that the provision of advice and recommendations to audit clients might create a self-review threat. However, as advice and recommendations can take many different forms, this does not mean that the provision of advice and recommendations to PIE audit clients is prohibited in all circumstances.

In finalizing the revised NAS provisions, the IESBA acknowledged that advice and recommendations might involve:

- Participating in discussions with management or those charged with governance about possible approaches to resolve a particular issue.
- Recommending a specific course of action based on a review or analysis of a particular set of circumstances.
- Benchmarking or confirming that a number of different approaches would meet a particular objective (e.g., compliance with a financial reporting or regulatory requirement).

Whether the provision of advice and recommendations might create a self-review threat will depend on the application of the "two-prong test" in paragraph R600.14. This will involve a consideration of (a) whether there is a risk that the outcome of the advice and recommendations will form part of or affect the

An understanding of the specific facts and circumstances, including the nature of the assistance or advice to be provided, is important when determining whether there is a risk that:

- The advice will form part of the matters considered by management and will affect the outcome of management's planning and decision-making in relation to the accounting records, internal controls over financial reporting, or the financial statements (i.e., subparagraph R600.14(a)); and
- The audit team will evaluate or rely on the advice given by the firm or network firm when considering management's decisions and actions in the course of auditing the entity's financial statements (i.e., subparagraph R600.14(b)).

accounting records, internal controls over financial reporting, or the financial statements on which the firm will express an opinion, and (b) whether there is a risk that the audit team will evaluate or rely on any judgments or activities performed by the firm or network firm when providing the advice and recommendations.

Advising management on general or high-level matters that require management to develop their own implementation plans and accounting for such implementation is less likely to give rise to a self-review threat. In contrast, the more detailed the advice given, including for example recommendations on how that advice should be implemented, the greater the risk of the firm assuming management responsibility or a self-review threat being created.

The following examples illustrate these concepts:

- Advising management on how cost savings can be achieved by closing a factory or reducing personnel would generally not create a self-review threat. However, if such advice also includes estimated provisions to be accounted for, a self-review threat would be created; or
- Advising management on how to achieve compliance with an applicable law or regulation would generally not create a self-review threat. However, providing detailed advice on designing and implementing processes to ensure compliance with laws and regulations might give rise to a self-review threat if there is a possibility that such advice will be reviewed in the course of the audit.

If a firm or network firm determines that a proposed advice or recommendation might create a self-review threat (having applied paragraph R600.14), the provision of that advice or recommendation is prohibited unless expressly permitted by the Code.

Q11. R600.17 provides that, as an exception to the self-review threat prohibition, a firm or a network firm may provide advice and recommendations to a PIE audit client in relation to information or matters arising in the course of the audit provided that the firm:

(a) Does not assume a management responsibility (Ref: Para. R400.13 and R400.14); and

(b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

Does the Code provide examples of advice and recommendations that might be provided in relation to information or matters arising in the course of an audit?

A. Yes. The IESBA determined that the following examples of activities, which are typically considered to be a normal part of the audit process, should be permissible provided that the conditions specified in paragraph R600.17 are met: (paragraph 600.17 A1)

- Advising on accounting and financial reporting standards or policies and financial statement disclosure requirements.
- Advising on the appropriateness of financial and accounting control and the methods used in determining the stated amounts in the financial statements and related disclosures.
- Proposing adjusting journal entries arising from audit findings.
- Discussing findings on internal controls over financial reporting and processes and recommending improvements.
- Discussing how to resolve account reconciliation problems.
- Advising on compliance with group accounting policies.

Q12. Can a firm or a network firm bypass subparagraph R600.14(b) because, in its view, the outcome or results of the proposed NAS would be immaterial to the financial statements of the PIE audit client on which the firm will express an opinion?

A. No. In determining whether a NAS might create a self-review threat to independence under paragraph R600.14, and whether the self-review threat prohibition under paragraph R600.16 applies, materiality is not a relevant consideration.

This is because it would not be appropriate for the firm to anticipate or pre-determine that the results of the NAS will not be considered in the course of the audit. Once the results

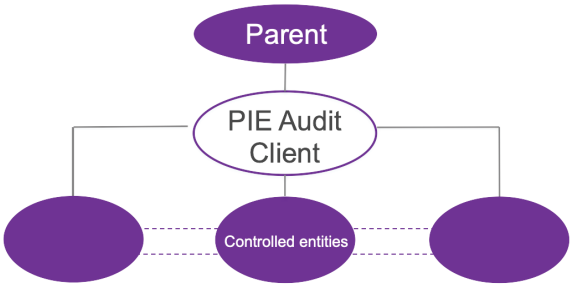
6. The categories of entities that are related entities for the purposes of the Code are set out in the Glossary to the Code.

7. Paragraph R400.22 was presented as R400.20 in final NAS prounoucement. It has been renumbered as a result of the final pronouncement relating to the revised definitions of listed entity and PIE in the Code and it states that "As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in [Part 4A] 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."

of the NAS form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion, the audit team might evaluate or rely on the judgments made or activities performed in arriving at those results for purposes of forming its judgments as part of the audit. Conversely, the audit must be planned and performed independently of the NAS, irrespective of whether the NAS has been or will be provided.

Therefore, in the case of an audit client that is a PIE, materiality is not relevant in considering whether the results of the NAS might be subject to audit procedures and therefore might create a self-review threat.

Q13. Under Section 400, an audit client that is a listed entity includes all of its related entities. For all other entities, including PIEs, the term audit client includes related entities over which the client has direct or indirect control. Which entities are captured under the self-review threat prohibition?



A. The self-review threat prohibition always applies to PIE audit clients. However, the applicability of the prohibition varies for related entities[6] depending on whether the PIE is listed or not. The Code identifies the related entities of listed and unlisted PIEs in paragraph R400.22.[7] Subject to the exception highlighted below, in the case of:

- A PIE audit client that is listed, the self-review prohibition would extend to NAS provided to all the related entities of that audit client.
- A PIE audit client that is unlisted, the self-review prohibition would extend to NAS provided to the related entities over which the audit client has direct or indirect control. However, when identifying, evaluating and addressing threats to independence arising from the proposed provision of a NAS to a PIE audit client that is unlisted, the firm should include other related entities *if it knows or has reason to believe that a relationship or circumstance involving that related entity is relevant to the evaluation of the firm's independence* (paragraph R400.22).

The Code includes an exception to the requirements that prohibit firms and network firms from providing some types of NAS to audit clients provided strict conditions are met (see paragraph R600.26). One of the conditions is that the NAS do not create a self-review threat in relation to the financial statements of the client on which the firm will express an opinion.

Q14. What are some examples of NAS that might create a self-review threat and so could not be provided to PIE audit clients?

A. The examples provided below are not exhaustive and are provided to assist in the application of the Code's revised NAS provisions. Each example is based on a specified set of facts and circumstances. Different facts and circumstances might result in different outcomes in applying the Code.

- *Advising a PIE audit client on matters relating to accounting and bookkeeping arising outside the course of the audit.*

  Advising an audit client that is a PIE on a matter relating to accounting and bookkeeping, such as the implications of changing from one financial reporting framework to another, might create a self-review threat (paragraph R600.14) if the advice includes the provision of estimates of the impact of the change in the accounting for specific line items in the financial statements. The judgments involved in making those estimates might subsequently be reviewed by the audit team for purposes of making judgments as part of the audit of the financial statements prepared under the new financial reporting framework.

- *Valuation[8] of an asset or liability for a PIE audit client that is then incorporated by management in the entity's accounting records and financial statements.*

  Such a valuation will form part of the accounting records and financial statements, and will present a risk that the audit team will evaluate or rely on the judgments and assumptions related to the valuation in the course of the audit.

8. Paragraph 603.2 A1 of the Code notes that 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.

9. Paragraph 610.2 A1 provides the following as examples of corporate finance services:
   – 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.
   – Assisting in finance raising transactions.
   – Providing structuring advice.
   – Providing advice on the structuring of a corporate finance transaction or on financing arrangements.

Therefore, irrespective of the materiality or significance of the valuation, the provision of that service to a PIE audit client is prohibited under the Code (paragraphs R600.14, R600.16, R603.5).

The same applies to the provision of:

– A valuation service the result of which might affect the accounting records or financial statements in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets (paragraph 604.17 A2(b)).

– A litigation support service that involves estimating, or might affect the estimation of, damages or other amounts that affect the financial statements on which the firm will express an opinion (see paragraph 607.4 A2).

- *Corporate finance services[9] that involve advising a PIE audit client on investment or divestment decisions, or options regarding capital structuring.*

  Advising a PIE audit client on investment or divestment decisions or options regarding capital structuring is not permissible under the Code if the outcome of that advice might create a self-review threat (paragraph R610.8).

  The advice is not permissible if there is a risk that the audit team will evaluate or rely on the judgments made as part of that advice – for example, whether the actions taken met the requirements of the legal or regulatory directive that led to the divestment or capital structuring.

  Advice and recommendations that involve analysis of the relative merits of options presented typically relate to matters that are complex or unusual and more difficult to implement. Whether an audit client has designated an individual who possesses suitable skill, knowledge and experience to evaluate the options and decide how to proceed will be relevant when assessing whether the firm will assume a management responsibility for the audit client. Also, see Q10 and Q17.

Provisions Relating to Specific Types of NAS

Accounting and Bookkeeping Services (Subsection 601)

Q15. In some jurisdiction-level codes, firms may prepare the statutory financial statements for related entities for their PIE audit client in limited circumstances. Is there a similar provision under the Code?

A. Yes. The Code prohibits the provision of accounting and bookkeeping services to audit clients that are PIEs (paragraph R601.6).

However, as an exception to this prohibition, under paragraph R601.7, a firm or a network firm may prepare statutory financial statements for certain related entities[10] of a PIE audit client provided that the following conditions are met:

(a) The audit report on the group financial statements of the PIE has been issued;

(b) The firm or network firm does not assume management responsibility and applies the conceptual framework to identify, evaluate and address threats to independence;

(c) The firm or network firm does not prepare the accounting records underlying the statutory financial statements of the related entity and those financial statements are based on client approved information; and

(d) The statutory financial statements of the related entity will not form the basis of future group financial statements of that PIE.

This exception is intended to accommodate situations in which

10. Such related entities are those defined in subparagraph (c) or (d) of the Glossary definition of a related entity set out below:
"An entity that has any of the following relationships with the client:
(a) An entity that has direct or indirect control over the client if the client is material to such entity;
(b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity;
(c) An entity over which the client has direct or indirect control;
(d) An entity in which the client, or an entity related to the client under (c) above, has a direct financial interest that gives it significant influence over such entity and the interest is material to the client and its related entity in (c); and
(e) An entity which is under common control with the client (a "sister entity") if the sister entity and the client are both material to the entity that controls both the client and sister entity."

11. The exception in paragraph R601.7 provides an approach that is similar to US Securities and Exchange Commission (SEC) independence requirements, which contain an analogous exemption to the Adopting Release of US SEC Rule 2-01 of Regulation S-X, SEC Release (2003) – *Strengthening the Commission's Requirements Regarding Auditor Independence*. The US SEC exemption allows for the preparation of statutory financial statements of affiliate foreign companies as long as the accountant's independence is not impaired, and those statements do not form the basis of the financial statements that are filed with the SEC.

a PIE audit client has related entities in different jurisdictions around the world,[11] and a local regulator requires the issuance of financial statements for those related entities that are prepared in accordance with the local law or regulation.

Tax Services (Subsection 604)

Q16. The Code prohibits the provision of tax advisory and tax planning services to audit clients that are PIEs if the provision of such services might create a self-review threat (paragraph R604.15). It also specifies circumstances when a self-review threat might be created (paragraph 604.12 A1) and when a self-review threat will not be created (paragraph 604.12 A2). What is the rationale for the approach taken in the Code in relation to the provision of tax advisory and tax planning services to audit clients that are PIEs?

A. The IESBA recognizes that the provision of tax advisory and tax planning services by professional accountants to clients, including audit clients, is regarded as in the public interest in many jurisdictions.

However, the approach taken when providing tax advisory and tax planning services can range from established and accepted application of tax law and practice to innovative, and potentially unproven, interpretations of tax law and practice.

The Code establishes those tax advisory and tax planning services that are prohibited (paragraph R604.4) and those that are permitted (paragraphs 604.12 A2 and 604.17 A3). In particular:

- A firm or a network firm is prohibited from providing a tax service or recommending a tax transaction to an audit client if that 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 the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail (paragraph R604.4).[12]
- The Code recognizes that, in many instances, the provision of tax advisory and tax planning services to audit clients involves the application of established and accepted tax law and practice. As such, the advisory elements of the services provided do not focus on the interpretation or construction of the relevant tax provisions – but consider the application of those provisions to the audit client's particular circumstances.

  On that basis, the IESBA determined that a self-review threat to independence will not be created when a firm or a network firm provides tax advisory or tax planning services to an audit client (including PIE audit clients) if such services: (paragraph 604.12 A2):

  (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 and has not been challenged by the relevant tax authority); or

  (c) Have a basis in tax law that the firm is confident is likely to prevail.
- The IESBA determined that, for subparagraph 604.12 A2 (c) to apply, the firm should have a high level of confidence that the basis in tax law is "likely to prevail." The IESBA, therefore, added the phrase "*the firm is confident*" to make it clear that the firm must have a robust rationale to support the proposed tax treatment.
- The Code adopts a similar approach for tax valuations (i.e., a self-review threat will not be created) if: (paragraph 604.17 A3)

  (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.

12. The IESBA considers that specific guidance on "tax avoidance" is best provided by local tax authorities, professional accountancy organizations, and national standard setters based on local tax laws and regulations.

Corporate Finance Services

Q17. The Code prohibits corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the audit client or providing advice on investment in such shares, debt or other financial instruments (paragraph R610.5). What is the rationale for extending the prohibition in the extant Code to include "…providing advice on investment in such shares, debt or other financial instruments?"

A. Firms may provide corporate finance services (such as advice on proposed acquisitions or disposals and due diligence) to an audit client that is a PIE provided that those services are not prohibited by paragraphs R610.6 and R610.8, and the firm identifies, evaluates and addresses any threats to independence beyond the self-review threat.

However, paragraph R610.5 prohibits firms or network firms from:

(a) Promoting, dealing in or underwriting shares, debt or other financial instruments issued by an audit client; or

(b) Providing advice on investment in shares, debt or other financial instruments issued by the audit client.

The prohibition on the provision of advice on investment in shares, debt or other financial instruments (paragraph R610.5 (b)):

- Applies irrespective of whether the advice is provided to entities or persons connected or unconnected to the audit client.

  The provision of such investment advice to third parties is prohibited because a firm would have a conflict of interest if the firm or a network firm recommended or advised on the merits of such investment in the audit client and the circumstances would create a threat to the fundamental principle of objectivity. As a result, the firm would not be regarded as independent of mind or in appearance.

- Does not apply to the provision of corporate finance services (such as advice on proposed acquisitions or disposals and due diligence) to third parties where the subject matter of those services involves an audit client.

Firm Communication with Those Charged with Governance about NAS

Q18. Does a firm have to obtain the concurrence of those charged with governance (TCWG) of a PIE audit client before it can provide a NAS to the audit client and its related entities?

A. Yes. 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.[13]

Building on that requirement, the IESBA determined that firm communications with TCWG of PIE audit clients about independence should include a discussion about NAS-specific matters. This includes obtaining the concurrence of TCWG regarding the NAS to be performed – an approach that already exists in some jurisdictions. Firms are also required to communicate to TCWG the fees to be charged for the provision of such services (paragraphs R410.25 and 600.21 A1) The IESBA believes that improved firm communication with TCWG about NAS provides enhanced transparency. This, in turn, will support good corporate governance practice and provide information to help TCWG better assess the firm's independence (see also Q21-Q22 of the Fees FAQ publication for additional guidance about communication with TCWG about fees).

Accordingly, the Code specifies that before a firm or a network firm can accept an engagement to provide a NAS to a PIE audit client, to any entity that controls that PIE directly or indirectly (i.e., a "parent" entity), or to any entity that is controlled directly or indirectly by that PIE (i.e., its downstream controlled entities), the firm is required to: (paragraph R600.21)

(a) Inform TCWG that the firm has determined that the provision of the NAS is not prohibited and will not create a threat to the firm's independence, or that any threat is at an acceptable level or will otherwise be eliminated or reduced to an acceptable level; and

(b) Provide TCWG with information to enable them to make an informed assessment about the impact of the NAS on the firm's independence.

13. 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:
(a) 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
(b) The related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

14. See footnote 7.

In addition, prior to beginning the engagement, TCWG of the PIE audit client must have concurred with (i) the firm's conclusion that the provision of the proposed NAS will not create a threat to the firm's independence as auditor of the PIE, or that any threat is at an acceptable level or will otherwise be eliminated or reduced to an acceptable level; and (ii) the provision of the proposed NAS (paragraph R600.22).

For the purposes of applying the provisions relating to obtaining concurrence from TCWG for the provision of a NAS to a parent entity of the PIE audit client, paragraph R400.22[14] and the definition of a related entity in the Glossary are not relevant. As a result, the requirements of R600.21 and R600.22 must be complied with even if (i) the audited PIE is immaterial to the parent; or (ii) the PIE audit client is not a listed entity.

Q19. Does the Code specify how and when the communication with TCWG should occur?

A. Yes. Recognizing that entities will have different corporate and governance structures and to facilitate compliance with the requirement to obtain the concurrence of TCWG before a proposed NAS may be provided, the Code provides the firm and TCWG of the PIE audit client flexibility to agree a process which addresses when and with whom, from within TCWG, the firm must communicate.

This approach enables TCWG to put in place a process that is suitable for their particular circumstances (paragraph 600.20 A2). For example, the process agreed by the firm and TCWG of the PIE audit client might:

- Identify services that may be provided without each time requiring concurrence, if TCWG agree as a general policy that such services would not impair the firm's independence. For example, a policy might specify a "pre-approved" list of services that the firm and TCWG have previously analyzed and determined will not create threats to the firm's independence or, if any such threats are created, they would be at an acceptable level. Having such a policy in place might be a convenient way for the firm and TCWG to avoid having to consider each proposed NAS on an individual engagement basis.
- Indicate an agreed procedure to be followed by the firm if it is unable to disclose information about a proposed NAS to be provided to another entity within the same group as the PIE audit client.

Such a process is likely to be of benefit to a PIE audit client that is:

- A member of a large and diverse group (for example, with PIE subgroups with businesses subject to different regulatory regimes) – where a process provides the opportunity to standardize the arrangements under which an audit firm can provide NAS within the group.
- A member of a group that includes multiple PIEs (such as a financial services group) – where a process can specify how, and by TCWG of which PIE, decisions should be made relating to the provision of NAS that might affect multiple PIEs within the group (see Q20).

Q20. How should a firm proceed if it encounters circumstances where, for legal, professional or commercial reasons, it is not permitted to divulge information about a proposed NAS to TCWG of the audit client?

A. A firm may not be permitted to provide information to TCWG of a PIE audit client about a NAS that it has been asked to provide to another entity within the group for one of the following reasons: (paragraph R600.23)

- Provision of information about that other entity and its affairs is prohibited by law, regulation or professional standards

- The entity to which the proposed NAS is to be provided has refused to authorize the firm to provide information about the proposed NAS to TCWG of the PIE audit client (e.g., where the information is sensitive or confidential).

In such circumstances, and subject to whether the circumstances were addressed in a process agreed between the firm and TCWG of the PIE audit client, the firm may provide the proposed service if: (paragraph R600.23)

(a) It provides such information as it can without breaching its legal or professional obligations;

(b) It informs TCWG of the PIE that the provision of the proposed NAS would not adversely affect the firm's independence as auditor of the PIE; and

(c) TCWG do not disagree with that conclusion.

15. An example is where a firm provides advice on how to improve complaints handling (e.g., by a hospital or other health care entity in relation to delays to scheduling) and the PIE is a finance company providing mortgage advice.

While TCWG of the PIE audit client may be concerned that they have not been provided with the information required by paragraph R600.21, the approach they take may be influenced by a number of factors, including:

- The extent and relevance of the information that the firm is in fact able to provide about the proposed NAS and the reasons why it is satisfied that its independence will not be impaired by the provision of that NAS.
- The extent to which the firm is able to explain the reasons why the information cannot be provided – for example, that the services are related to sensitive information about a proposed transaction.[15]
- Whether TCWG are willing to rely on the firm's judgment.

If the firm is unable to provide any information about the proposed NAS or if TCWG disagree with the firm's conclusion that the provision of the proposed NAS will not create a threat to independence, the firm must either: (i) decline the NAS, or (ii) end the audit engagement (paragraph R600.24).

Other Matters

Transitional Provision

Q21. In what circumstances may a firm that will audit the financial statements of a PIE audit client for a period commencing on or after July 1, 2023 provide a NAS that is prohibited under the revised provisions?

A. Where a firm will perform the audit of the financial statements of a PIE audit client for the period from July 1, 2023 to June 30, 2024 and it is engaged to provide a NAS that is permitted under the extant NAS provisions but prohibited under the revised NAS provisions:

- The firm may provide that NAS under the transitional provision provided that the engagement commenced before December 15, 2022, and notwithstanding that it will not be completed until after June 30, 2023.
- The firm may provide that NAS if the engagement commenced after December 15, 2022 provided it will be completed on or before June 30, 2023.
- The firm may not provide the NAS if the engagement commenced after December 15, 2022 and would not be completed on or before June 30, 2023.

Q22. Are there any circumstances in which a firm that commenced the provision of a NAS prior to December 15, 2022, would subsequently be required to obtain the concurrence of TCWG to continue to perform the NAS?

A. The revised NAS provisions are effective for audits of financial statements for periods beginning on or after December 15, 2022.

However, the Code establishes a transitional provision to apply to NAS engagements commenced prior to the December 2022 effective date. Therefore, the commencement of the NAS prior to the December 15, 2022 date is the reference point, irrespective of when the audit engagement period re-commences or begins.

The effect of the transitional provision is that if a firm or a network firm entered into an engagement to provide a NAS to an audit client and began work on that engagement prior to December 15, 2022, the provisions applicable when the firm commenced the NAS govern the provision of that NAS until it is completed.

If a NAS is provided on a recurring basis, the concurrence of TCWG should be obtained in accordance with the revised provisions governing NAS before the first occasion that such NAS is re-commenced. Such concurrence will be relevant to the independence of a firm undertaking an audit of financial statements for a period beginning on or after December 15, 2022.

Documentation

Q23. Is a firm required to document how it has complied with the revised NAS provisions?

A. Yes. The extant requirements in the Code remain unchanged with respect to documentation. A firm is required to document its conclusions regarding compliance with the International Independence Standards (including Section 600), and the substance of any relevant discussions that support those conclusions (paragraphs R400.60 to 400.60 A1).

The Code provides application material with examples of what a firm might document regarding its conclusion to provide a NAS (paragraph 600.27 A1).

About the IESBA

The 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).

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