

# Revised Non-Assurance Services (NAS) Provisions

June 17, 2021

**Richard Fleck, NAS Task Force Chair**

**Kim Gibson, IESBA Member**

# Agenda

- 1) Background
- 2) Overview of revisions
- 3) Deep dive into specific provisions
- 4) Resources and support materials



# Why Change the Code Now?

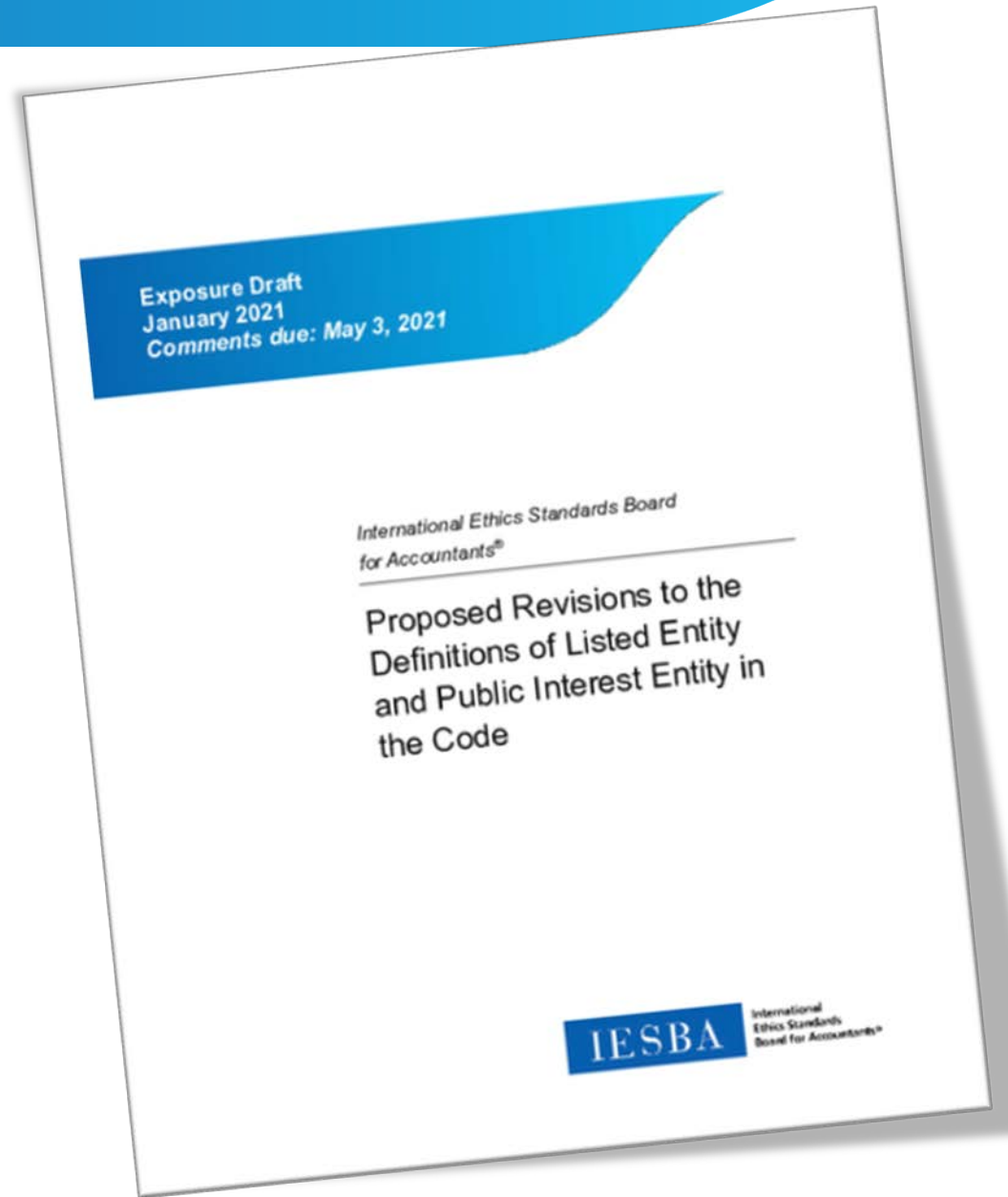
- Code provides strong foundation, but more work needed to strengthen International Independence Standards, especially for PIE audit clients
  - Public expectations about auditor independence changed
  - Changes in laws, regulations and firm policies in many jurisdictions
  - Projects informed by research, public consultation and global outreach
- NAS project prioritized in current Strategy and Work Plan
  - Project proposal approved in September 2018





# Different Approaches for PIE and Non-PIEs

- Different provisions for PIE audit clients and non-PIEs
  - Heightened stakeholder expectations for PIE audit clients
- IESBA currently exploring revisions to PIE definition
  - Anticipates finalizing PIE project by end of 2021
  - In relation to the NAS Fees project, the IESBA's focus has been on establishing the principles (and requirements) that should apply to PIE audits (however defined)



# Why Change the Code Now?

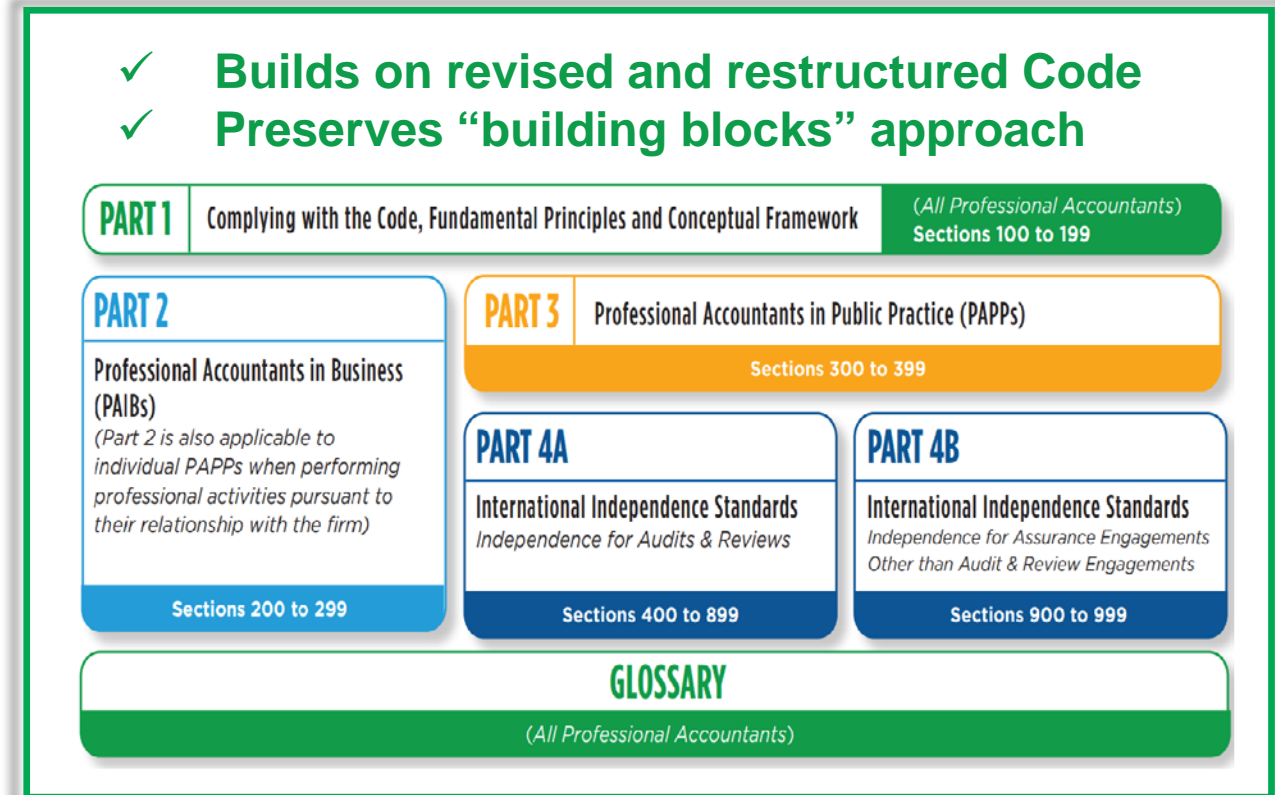
- Informed by extensive research and stakeholder input
  - 2018 NAS roundtables
  - [NAS](#) Exposure Drafts released in January 2020
  - 60+ comment letters from a wide range of stakeholders
- IESBA approved final NAS texts in December 2020
  - Public Interest Oversight Board approval in April 2021
  - [Release](#) of Final Pronouncement in April 2021



EFFECTIVE DATE  
**DECEMBER 2022**

# Sections of the Code that Are Impacted


- Section 600
  - General in paras 600.1 to 600.27 A1
  - Topic-specific in Subsections 601 to 610
- Conforming & consequential amendments in Sections 400, 525, 900 and 950




# General NAS Provisions – Key Revisions



Introduction of **new self-review threat (SRT) prohibition** for PIE audit clients



New requirements for **firm communication with those charged with governance (TCWG)** for PIE audit clients



More clarifications to assist in the application of the **conceptual framework to independence** in identifying, evaluating and addressing threats created by providing a NAS to an audit client

# Self-review Threat Prohibition – PIE Audit Clients



HEIGHTENED EXPECTATIONS  
ON A FIRM'S INDEPENDENCE  
FOR PIE AUDIT CLIENTS

## Prohibition [p.R600.16]

For PIE audit clients, a NAS that might create a self-review threat is prohibited because the threat:

- Cannot be eliminated
- Cannot be reduced to an acceptable level by applying safeguard(s)



# Self-Review Threat – All Audit Clients

**Guidance to assist in identifying threats and to determine whether a proposed NAS might create a self-review threat [p. 600.13 A1 to 600.15 A2]**

Firms must evaluate whether there is a risk that:

- 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
- 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 service.



Irrelevant whether NAS will be subject to audit procedures; or if outcome of NAS is immaterial

# Self-review threat Prohibition – PIE Audit clients

“Might Create”  
vs  
“will create”

Avoids the potential for a firm to circumvent the prohibition by incorrectly concluding that:

- A proposed NAS will not create a self-review threat; or
- The outcome of the proposed NAS will not be subject to audit procedures

Materiality

- Materiality is NOT relevant in determining whether a proposed NAS might create a self-review threat
- Approach reduces scope for subjectivity and therefore promotes consistency in applying prohibition

# Approach for Non-PIE Audit Clients

## Addressing Threats

Strengthened provisions to:

- Introduce new examples of safeguards for addressing threats
- Emphasize that in certain situations a safeguard might not be available or capable of address threats

- On-balance, having the support of auditors contributes to effective management of non-PIEs and generally safeguards are effective in reducing threats to an acceptable level
- It is in the public interest that Code does not impose disproportionate regulatory burdens, undue costs and complexity on non-PIEs

# Advice and Recommendations – All Audit Clients

Self-interest

Self-review

Advocacy

Familiarity

Intimidation

- New guidance clarify that providing advice and recommendations (A&R) to audit clients might create a self-review threat – *Para. 600.11 A1*
- Firms must determine whether A&R might create a self-review threat

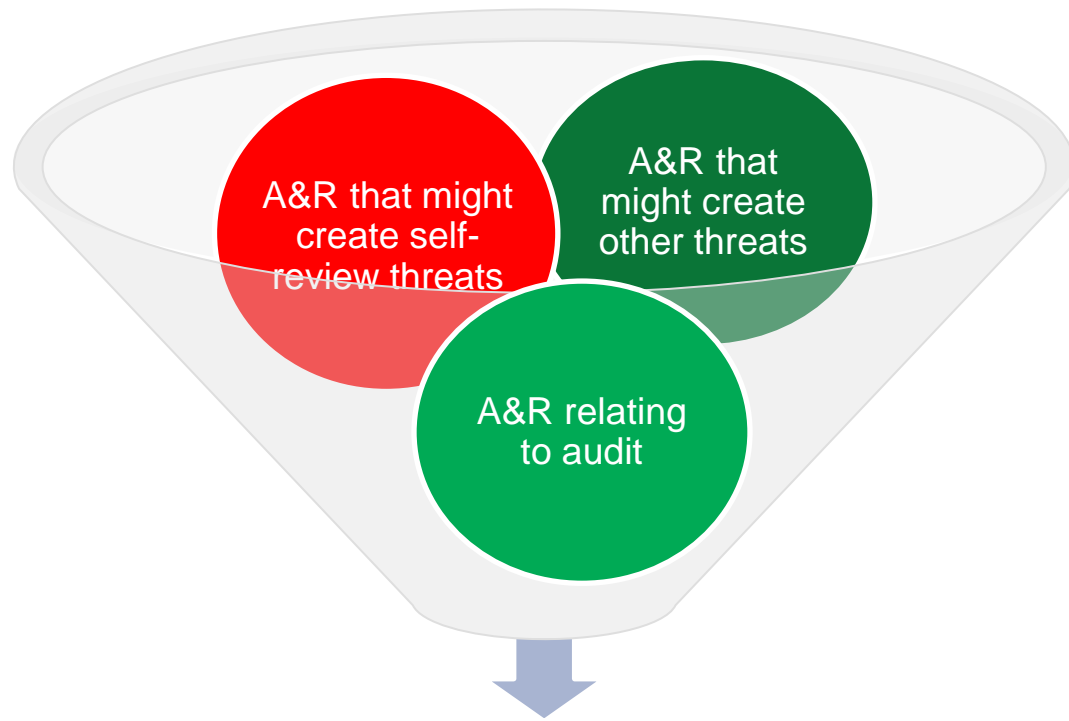
- PIE audit clients: A&R that might create a self-review threat is prohibited except in relation to information or matters arising in the course of an audit
- Non-PIE audit clients: No change to extant approach



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# Providing A&R – Exception for PIE Audit Clients



Generally, A&R that might create a self-review threat is prohibited for PIE audit clients

A&R that relates to information or matters arising in the course of an audit is permitted if:

1. Firm or network firm **DOES NOT** assume a management responsibility
2. Firm or network firm applies the conceptual framework to identify, evaluate and address threats to independence other than self-review threats

# Materiality

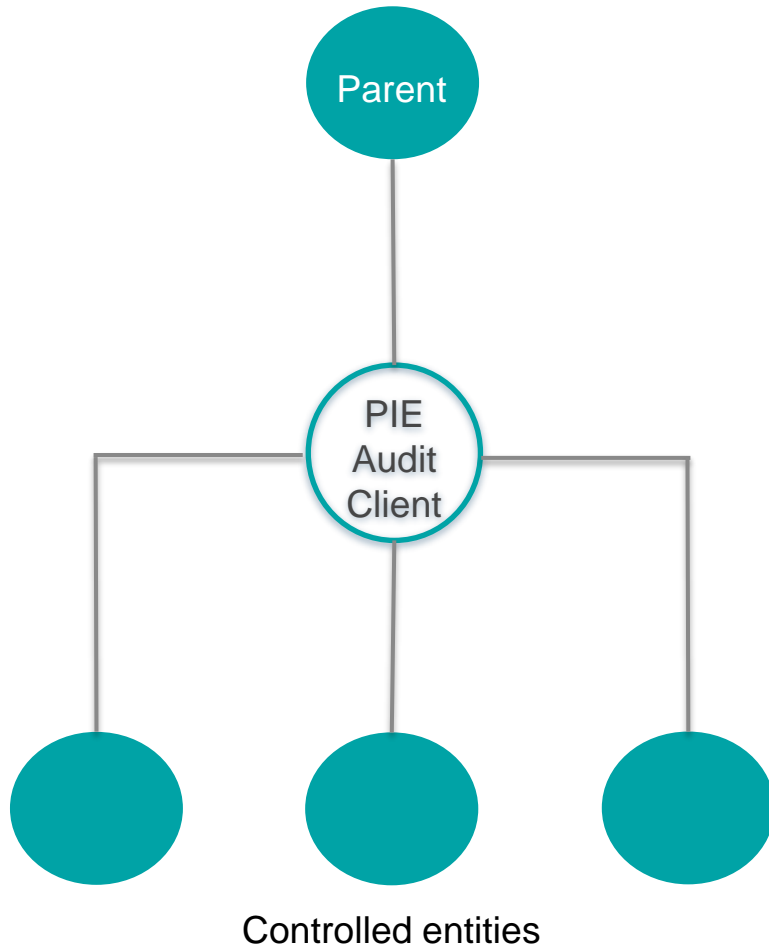
- Continues to be a factor relevant in evaluating threats created by providing NAS to an audit client. [p. 600.10 A1]
- Extant qualifier is removed

“...where the Code **expressly prohibits** the provision of a NAS to an audit client, a firm or a network firm is **not permitted to provide that NAS, regardless of the materiality** of the outcome or results of the NAS on the f/s on which the firm will express an opinion.” [p. 600.10 A2]



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# Firm Communication with TCWG – PIE Audit Clients



**Building on extant Code, new requirements to facilitate enhanced and transparent two-way communications [p. 600.20 A1 to R600.22]**

Unless otherwise addressed by a pre-determined process, firm is required to:

1. Inform TCWG of the PIE that firm has determined that the provision of the NAS is not prohibited and will not create a threat, or that threat is at an acceptable level
2. Provide TCWG of the PIE with information to enable them to make an informed assessment about the impact of the NAS on the firm's independence
3. Obtain **concurrence from TCWG** before providing a NAS to (i) a PIE; (ii) any entity that controls that PIE (i.e., parent); or (iii) any entity that is controlled directly or indirectly by that PIE



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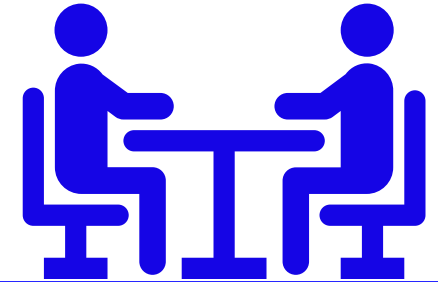
# Firm Communication with TCWG – PIE Audit Clients (2)

## Examples of information to communicate with TCWG [p. 600.21 A1]

- ☐ The nature and scope of the proposed NAS
- ☐ The basis and amount of the proposed fee
- ☐ Whether the firm has **identified any threats to independence** that might be created by the proposed NAS and **the basis for the firm's assessment that the threats are at an acceptable level...**
- ☐ Whether the combined effect of providing multiple NAS creates threats or changes the level of previously identified threats

## Where communication is prohibited by applicable professional standards, laws or regulations, or would result in disclosing sensitive or confidential information [p. R600.23]

- ☐ Firm to provide such information as it is able without breaching legal/ professional obligations
- ☐ Firm to inform TCWG of PIE that the provision of the NAS will not create a threat to firm's independence from the PIE, or that any identified threat is at an acceptable level...
- ☐ TCWG do not disagree with that conclusion



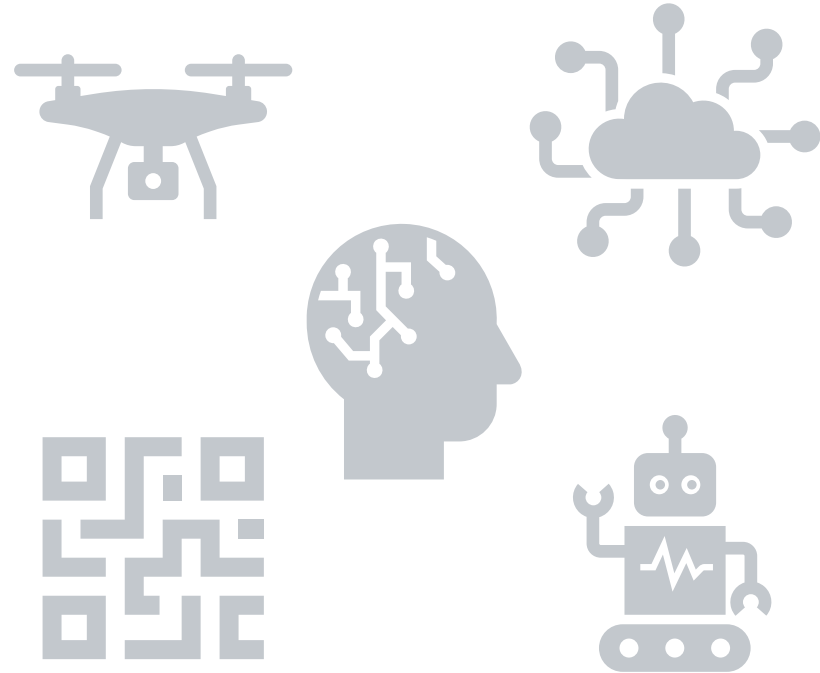
If the firm is not permitted to provide required communications to TCWG, or if TCWG disagrees with firm's conclusion that provision of NAS will NOT create a threat to independence, the firm must either: (i) decline NAS; or (ii) end the audit engagement [p. R600.24]



# New and Emerging NAS

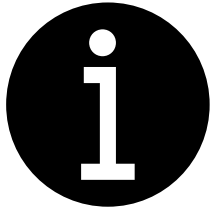
*“New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of NAS that firms and network firms might provide to an audit client...” – Para. 600.5*

The general NAS provisions (p. 600.1 to 600.27 A1) are relevant when a NAS is not explicitly addressed in the Code



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# New and Emerging NAS – New Guidance



Going beyond extant Code, the revised NAS provisions prompt the firm to consider the manner in which a NAS is to be provided [p. 600.9 A2]

- For example, firms to consider the personnel to be involved and their location
- Although not explicitly stated, it is also relevant to consider the extent to which technology will be used to provide or deliver the NAS

# More Technology Guidance to Come...

- Multiple Technology Workstreams to ensure Code remains “future ready”
  - Development of technology-related guidance
  - Development of technology-related revisions to the Code
  - Fact-finding/ outreach
- More guidance anticipated for technology-related NAS



CLICK [HERE](#) TO LEARN MORE ABOUT THE TECHNOLOGY PROJECT

# Additional Clarifications to Drive Consistency – All Audit Clients

- More emphasis on how firms are to apply the provisions in the conceptual framework to identify, evaluate and address NAS threats
  - Even more prominence given to prohibition on assuming management responsibility for an audit client (provisions repositioned from Section 600 to Section 400)
  - Strengthened provisions to prompt consideration of the combined effect of providing multiple NAS to the same audit client ~ application material elevated to a requirement (R600.12 to 600.12 A1)
  - Expanded guidance to provide examples of safeguards that might address threats to independence created by providing NAS to audit clients (600.18 A1 to 600.18 A4)
  - Structural revisions to spotlight the potential threat(s) that might be created by the provision of a specific type of NAS (see introductory paras in each subsection)
- New guidance to help guide documentation of the firm's conclusions re compliance with revised NAS provisions (600.27 A1)



# Overview of NAS Prohibitions in Subsections 601-610

## Stricter NAS prohibitions:

All  
Audit  
Clients

- Recruiting services *R609.5-R609.6*
- When the effectiveness of the service depends on a particular accounting treatment or presentation in the financial statements:
  - Tax advisory and tax planning services *R604.13*
  - Corporate finance services *R610.6*

- Certain tax services *Subsection 604*

PIE  
Audit  
Clients

- Accounting and bookkeeping services\* *R601.6*
- Valuation services\* *R603.5*
- Acting as an expert witness *R607.9*
- Legal advice\* *R608.9*
- Acting in an advocacy role *R608.11*

Additional guidance  
provided to assist in  
applying NAS  
provisions in a  
consistent manner

*\* Prohibited when a self-review threat might be created*

# Recruiting Services – All Audit Clients

## Tightened restrictions for providing recruiting services [p. R609.5 to R609.6]

### Extant Prohibition

- Acting as a negotiator on the client's behalf
- For director/ officer of entity or member of senior management
  - Searching for or seeking out candidates
  - Undertaking reference checks of prospective candidates

### Additional Prohibitions

- Recommending the person to be appointed
- Advising on the terms of employment, for:
  - A director or officer of the entity; or
  - A member of senior management

# Tax Services

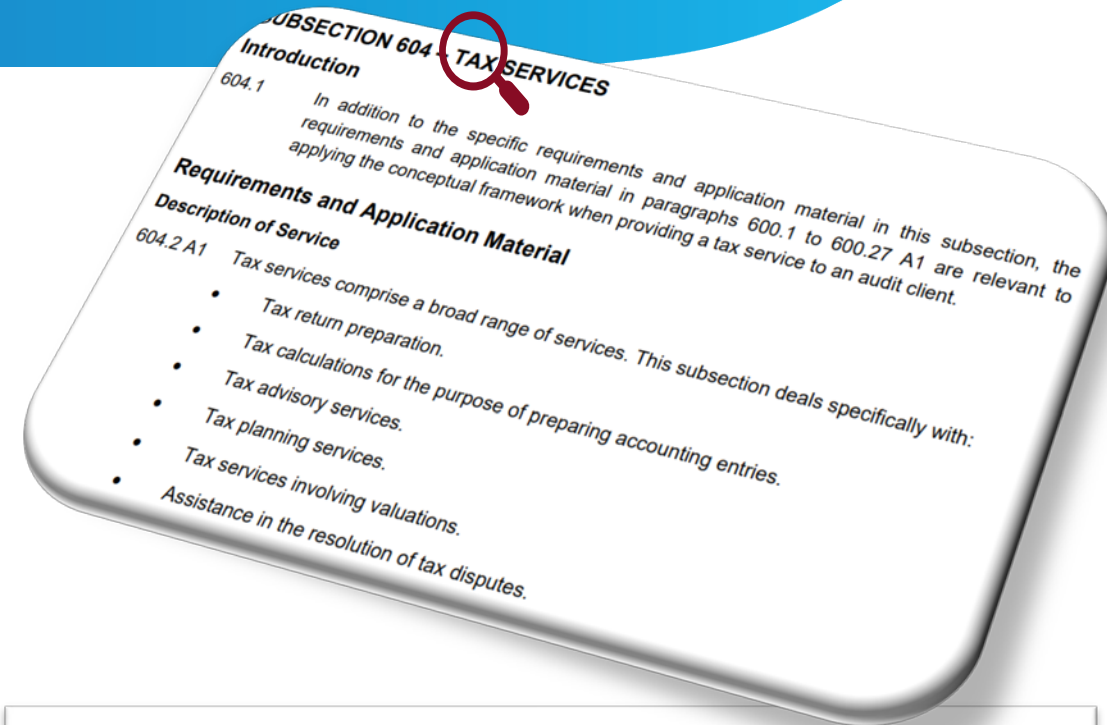
## Prohibited

- Tax service or transaction relating to marketing, planning, or opining in favor of a tax treatment that was initially recommended, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance (for all audit clients) [R604.4](#)
- Tax advisory and tax planning services when effectiveness of advice is dependent ... (for all audit clients) [R604.13](#)
- Tax calculation for the purpose of preparing accounting entities (for PIEs only) [R604.10](#)
- Acting as an advocate before a tribunal or court in the resolution of a tax matter (for PIEs only) [R604.26](#)

## Prohibited for PIEs when a SRT might be created

- Tax advisory and tax planning services [R604.15](#)
- Tax involving valuations [R604.19](#)
- Assistance in resolution of tax disputes [R604.24](#)

**Not Prohibited:** Tax return preparation [604.5 A1 to 604.6 A1](#)



# Accounting and Bookkeeping Services – PIE Audit Clients

Firms are **prohibited** from providing accounting and bookkeeping (A&B) services to their PIE audit clients when a self-review threat might be created

- The exception in extant R601.7 that allowed firms to provide A&B of a routine or mechanical nature to divisions or related entities of a PIE audit client is withdrawn
- Allows for the preparation of statutory financial statements (f/s) for certain related entities of a PIE once certain strict conditions are met

## Conditions for Preparing Statutory F/S [p. 601.7]

1. Audit report on group f/s of the PIE has been issued
2. The firm does not assume a management responsibility
3. The firm applies the conceptual framework to identify, evaluate and address threats to independence
4. The firm does not prepare the accounting records underlying the statutory f/s of the related entity
5. The f/s are based on client approved information
6. The statutory f/s of the related entity will not form the basis of future group financial statements of that PIE.



# Routine or Mechanical Services – Non-PIE Audit Clients

## New guidance to explain “routine or mechanical” [p. 601.5 A1 to 601.5 A2]

The provision of accounting and bookkeeping services is permissible **for non-PIEs** if:

1. The firm does not assume a management responsibility for the audit client;
2. The NAS is of a **routine or mechanical nature**; and
3. The firm addresses any threats to independence that are not at an acceptable level.

### New Guidance

...services that are routine or mechanical:

- a) Involve information, data or material in relation to which the client has made any judgments or decisions that might be necessary; and
- b) Require little or no professional judgement.

# Valuation Services – Non-PIE Audit Clients

## R603.4

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

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

## 603.4 A1

Certain valuations **do not** involve a significant degree of subjectivity. This is likely to be the case:

- when the underlying assumptions are established by law or regulation; or
- 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.**

# Acting as an Expert Witness – PIE Audit Clients

## Firms are generally prohibited from acting as an expert witness in a matter [p. R607.9]

- Due to the advocacy threat created
- Examples of circumstances in which an advocacy threat is at an acceptable level:
  - Appointed by a tribunal or court [p. 607.7 A3(a)]
  - In a class action and certain conditions are met

### Conditions for class action [p. 607.7 A3(b)]

1. The firm's audit clients constitute < 20% of the members of the class or group (in number and in value)
2. No audit client is designated to lead the class or group
3. No audit client is authorized by the class or group to determine the nature, scope or terms of services





# Legal Advice & Acting in an Advocacy Role – PIE Audit Clients

**Firms are prohibited from acting in an advocacy role [p. R608.11]**

- Negotiating on behalf of an audit client:
  - might create an advocacy threat or
  - might result in the firm or network firm assuming a management responsibility

**Firms are prohibited from providing legal advice when a self-review threat might be created [p. R608.7]**

- Estimating a potential loss for the purpose of recording a provision in a client's f/s
- Interpreting contractual provisions that might give rise to liabilities reflected in a client's f/s



# Other Assurance Engagements Other than Audits and Reviews

- Consideration of self-review threat in the case of NAS that is provided to assurance clients other than audit and review engagement clients
  - New guidance provided for assurance clients that are PIE entities → Explains when the public's expectations about a firm's independence are heightened [p. 950.11 A1]
  - Encourages firms to disclose the existence of a self-review threat and provides guidance to address it [p. 950.11 A2]
- Many of the specific NAS prohibitions in S600 for audits and reviews are not extended to other assurance engagements
  - Primary focus of the NAS project was to respond to concerns about firms' independence in the context of providing NAS to audit clients

- Consequential amendments to Part 4B, Section 950
- Preserves existing alignment to Part 4A, Section 600

# STRENGTHENING INTERNATIONAL INDEPENDENCE STANDARDS

Revised Non-Assurance Services and Fee-related Provisions

IESBA is committed to supporting the adoption and implementation of the revised NAS and Fee-related provisions

- Resources now available
  - Bases for Conclusions
  - Infographic
  - YouTube videos
- Coming Soon
  - Fact-sheets | FAQs | Webinars | Articles



Access resources at:

<http://www.ethicsboard.org/strengtheningIIS>



# Coming Soon...



*The summary of prohibitions applicable to **PIE audit clients** will soon be updated to reflect NAS revisions*

Updated document will:

- Highlight the new general prohibition on NAS and A&R that might create a self-review threat
- Emphasize that for PIE audit clients, NAS prohibitions apply without regard to materiality
- Highlight stricter NAS prohibitions in some areas (e.g., accounting and book-keeping services, tax planning and advisory services, acting as an expert witness, recruiting services)

# ANY QUESTIONS?





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