

## **Exposure Draft**

# **Proposed Changes to EP 100 Code of Professional Conduct and Ethics**

Comments are requested by 2 December 2021.

Once issued, the proposed changes are effective as of 15 December 2022.

## REQUEST FOR COMMENTS

This Exposure Draft of ISCA was approved for publication in October 2021. This Exposure Draft may be modified in light of comments received before being issued in its final form.

ISCA welcomes comments on all matters addressed in this Exposure Draft (ED). Specifically, we would like to hear your views on the following:

### *Audit Clients that are Listed Entities or Public Companies*

1. This ED proposes to replace an extant SG provision, SG410.4A which is applicable to audit clients that are listed entities or public companies, to incorporate several key recommendations arising from ISCA's survey of audit committee members.  
[paras. 39 – 41 to the Explanatory Memorandum of this ED]

Revised SG410.27A proposes to retain a threshold to trigger evaluation of those charged with governance (TCWG) as an additional safeguard locally that is over and above the requirements at a global level for TCWG to preapprove the provision of individual non-assurance services (NAS).

Do you think that the threshold to trigger evaluation of TCWG in revised SG410.27A should be performed before providing NAS or only at year-end? Please let us know your reasons.

Comments should be submitted so as to be received by 2 December 2021, preferably by e-mail. All comments will be considered a matter of public record. Email responses should be sent to [professionalstandards@isca.org.sg](mailto:professionalstandards@isca.org.sg).

**PROPOSED CHANGES TO EP 100**  
**CODE OF PROFESSIONAL CONDUCT AND ETHICS**  
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# EXPLANATORY MEMORANDUM

## Introduction

1. All members of the Institute of Singapore Chartered Accountants (ISCA) must adhere to the EP 100 *Code of Professional Conduct and Ethics* (the Code or EP 100). EP 100 is modelled after the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA) of the International Federation of Accountants (IFAC).
2. EP 100 also encompasses the SG provisions included in the *Code of Professional Conduct and Ethics for Public Accountants and Accounting Entities* issued by the Accounting and Corporate Regulatory Authority (ACRA). SG provisions are local adaptations to serve the public interest in Singapore and to conform to Singapore's regulatory environment and statutory requirements.
3. This memorandum provides background to ISCA's Exposure Draft (ED), and an explanation of the proposed changes to EP 100.

## Background

4. EP 100, revised on 7 July 2021 and expected to be effective 31 December 2021, is based on the *Handbook of the International Code of Ethics for Professional Accountants, 2020 Edition* of the IESBA, published by the IFAC in February 2021.
5. In April 2021, IFAC published the final pronouncements, *Revisions to the Fee-related Provisions of the Code* (Fees final pronouncement) and *Revisions to the Non-Assurance Services Provisions of the Code* (NAS final pronouncement).
6. Auditor independence is vital to public trust in audited financial statements and contributes to audit quality. In recent years, audit firms' provision of non-assurance services (NAS) to audit clients has come up as an issue that is perceived to affect auditor independence.
7. To gain greater clarity on this, ISCA Ethics Committee set up a working group to formulate recommended practices that will strengthen auditor independence in relation to the provision of NAS.
8. ISCA's publication on 22 October 2020, *Auditor Independence When Providing Non-Assurance Services*, captures findings from a survey of audit committee members in March 2020 regarding the recommendations as well as matters which impact auditor independence when offering NAS.

## Consultation

9. Fee-related provisions are contained within Section 410 and Section 905 of EP 100, including SG provision, SG410.4A which is applicable to audit clients that are listed entities or public companies. NAS provisions are contained within Section 600, Subsections 601 to 610, and Section 950.
10. This consultation seeks feedback on the proposed changes to EP 100 to adopt the Fees and NAS final pronouncements and to replace extant SG410.4A with the revised SG provisions, SG410.27A and SG410.27B, to incorporate several key recommendations arising from ISCA's survey of audit committee members.
11. The Staff of ISCA has prepared a mapping table which does not form part of the proposed EP 100. This table is intended to assist ISCA members familiar with the existing provisions of EP 100 (revised on 7 July 2021) to navigate the revised provisions of the proposed EP 100 in this ED. You may refer to the mapping table in the Appendix to this Explanatory Memorandum for more information.

12. The key elements of the proposed changes to EP 100 are highlighted in the sections that follow below.

### **Revised Fee-related Provisions**

13. Key revisions to Section 410 of EP 100 to adopt the Fees final pronouncement and key recommendations arising from ISCA's survey of audit committee members include:
- Recognition that threats to independence are created when fees are negotiated with and paid by the audit or assurance client. (paras. 14 – 17)
  - New prohibition for firms to allow fees for services other than audit to influence the audit fees. (paras. 18 – 20)
  - New guidance to help firms determine what would constitute a large proportion of fees for services other than audit to audit fee. (paras. 21 – 25)
  - Strengthened provisions to address undue fee dependency on audit clients that are public interest entities (PIEs). (paras. 26 – 30)
  - New provisions relating to fee dependency on non-PIE audit clients. (paras. 31 – 32)
  - New provisions to enhance transparency of fees paid by PIE audit clients to assist stakeholder judgments about auditor independence. (paras. 33 – 38)
  - Revised SG410.27A and SG410.27B applicable to audit clients that are listed entities to better inform the views and decisions of those charged with governance (TCWG). (paras. 39 – 41)

#### *Threats Created by Fees Paid by an Audit Client*

14. In addition to any self-interest threat to compliance with the fundamental principles as covered in Section 330 of EP 100, potential threats to independence also need to be considered when fees for professional services are negotiated with and paid by a client.
15. While payment of fees by an audit client to a firm is a practice that is generally recognized and accepted by intended users of financial statements, such practice creates a **self-interest threat** and might create an **intimidation threat** to independence.
16. The application of the conceptual framework in Section 120 of EP 100 requires that firms determine whether the threats to independence created by fees proposed to the audit client are at an **acceptable level**.
17. Revised paragraph 410.4 A3 provides a list of factors that are relevant to evaluating the level of threats created by fees paid by the audit client (either by firms or network firms), including:
- Whether the fees are paid for services to be provided by the firm or a network firm to the audit client.
  - The relationship of the client to the related entities to which the services other than audit are provided, for example when the related entity is a **sister entity**.
  - The **level of the fee** in the context of the service to be provided by the firm or a network firm.

#### *Impact of Other Services on the Audit Fee as a Standalone Fee*

18. Determining the fees to be charged to an audit client, whether for audit or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards (revised para. 410.5 A1).

19. The fee for an audit engagement is a **standalone fee** and should not be considered as part of the totality of fees that might be charged to the audit client. Revised paragraph R410.6 prohibits the firm from allowing the audit fee to be influenced by the provision of services other than audit to an audit client by the firm or a network firm.
20. However, the prohibition does not preclude the firm from considering demonstrable cost savings that can be achieved through the experience derived from the provision of services other than audit to the audit client (revised para. R410.7).

#### *Proportion of Fees for Services Other Than Audit to Audit Fee*

21. The evaluation of the level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the audit client.
22. New application material (revised para. 410.11 A2) provides guidance to help firms determine what would constitute a large proportion of fees for services other than audit to audit fee.
23. IESBA concluded that a cap or an exact threshold regarding the proportion of fees would not be appropriate at a global level. From the perspective of self-interest threat created by a high proportion of fees for services other than audit, **any type of fee** is relevant to the evaluation of the level of threat, even fees for “audit-related services” (ARS) and it would be impracticable to specify which services are ARS at a global level.
24. For this purpose, a firm has to include fees for services other than audit provided to **related entities** of the audit client in determining the proportion of fees, as **fees from non-controlled related entities** could also create threats to the firm’s independence.
25. However, for confidentiality or other reasons, it might not be feasible to disclose fee-related information in relation to related entities that are not controlled by the audit client. Accordingly, the scope of communication with TCWG or disclosure to the public shall include only controlled entities that are consolidated in the group financial statements of PIE audit clients. (paras. 34 and 37)

#### *Fee Dependency on PIE Audit Clients*

26. Paragraph R410.4 of EP100 requires safeguards to be taken by a firm to mitigate threats created by fee dependency on PIE audit clients when total fees from the audit client and its related entities represent **more than 15%** of the total fees received by the firm for **two consecutive years**.
27. IESBA considered that a review performed after the issuance of the audit opinion on the second year’s financial statements would no longer be an appropriate safeguard to reduce the threats to an acceptable level.
28. Revised paragraph R410.18 (which will replace para. R410.4) clarifies that **only a pre-issuance review** performed by a professional accountant (independent of the firm expressing the opinion on the financial statements) prior to issuance of the audit opinion on the second year’s financial statements could be a safeguard capable of reducing the threats to an acceptable level.
29. Even if a pre-issuance review continues to be a safeguard every year after the second year, the IESBA was of the view that fee dependency on a PIE audit client cannot continue indefinitely.
30. Therefore, the firm shall cease to be the auditor if the fee dependency continues for **more than five consecutive years** unless there is a compelling reason with regard to the public interest, provided that certain criteria are met (revised para. R410.21).

### *Fee Dependency on Non-PIE Audit Clients*

31. IESBA proposed a consistent approach to mitigate threats created by fee dependency in the case of non-PIE audit clients, while allowing greater latitude in the threshold and safeguards adopted than those applying in the case of PIEs. On balance, the IESBA determined that it would not be necessary to require a firm to cease to be the auditor of a non-PIE audit client after a certain period of time.
32. When total fees from a non-PIE audit client represent **more than 30%** of the total fees received by the firm for **five consecutive years**, the firm shall determine whether one of the following actions might be a safeguard and, if so, apply it:
  - Prior to issuing the audit opinion on the fifth year's financial statements, have a professional accountant, who is not a member of the firm, review the fifth year's audit work; or
  - After the audit opinion on the fifth year's financial statements has been issued, and before issuance of the audit opinion on the sixth year's financial statements, have a professional accountant, who is not a member of the firm, or a professional body review the fifth year's audit work. (revised para. R410.15)

### *Communication of Fee-related Information of PIE Audit Clients with TCWG*

33. Enhanced transparency of fee-related information of PIE audit clients can serve to better inform the views and decisions of TCWG and the public about the audit firm's independence.
34. For PIE audit clients, the firm shall communicate in a timely manner with TCWG:
  - (a) Fees paid or payable to the firm or network firms for the **audit** of the financial statements on which the firm expresses an opinion;
  - (b) Fees for provision of **services other than audit** by the firm or a network firm charged to the client and its *downstream related entities* over which the client has direct or indirect control that are *consolidated* in the financial statements on which the firm will express an opinion;
  - (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm **when the firm knows, or has reason to believe**, that such fees are relevant to the evaluation of the firm's independence; and
  - (d) The firm's assessment of the level of the threats to independence created by such fees and any actions the firm has taken or proposes to take to reduce such threats to an acceptable level. (revised paras. R410.23, R410.25 and R410.26)
35. If applicable, the firm shall also communicate with TCWG regarding **fee dependency** where total fees from a PIE audit client represent **more than 15%** of the total fees received by the firm, including:
  - That fact and whether the situation is likely to continue;
  - Safeguards applied to address the threats created; and
  - Any proposal to continue as the auditor. (revised para. R410.28)
36. As an exception, the firm may determine not to communicate fee-related information to TCWG of an entity that is a wholly-owned subsidiary of another PIE provided that the entity is consolidated into group financial statements of that PIE and the firm or a network firm expresses an opinion on those group financial statements. (revised para. R410.27)

### *Public Disclosure of Fee-related Information of PIE Audit Clients*

37. Disclosure of fee-related information would be best presented by the PIE audit client.

Accordingly, the firm is only required to publicly disclose fee-related information in a timely and accessible manner in cases where such information is not disclosed by a PIE audit client, including:

- (a) Fees paid or payable to the firm or network firms for the **audit** of the financial statements on which the firm expresses an opinion;
  - (b) Fees for provision of **services other than audit** by the firm or a network firm charged to the client and its *downstream related entities* over which the client has direct or indirect control that are *consolidated* in the financial statements on which the firm will express an opinion;
  - (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm **when the firm knows, or has reason to believe**, that such fees are relevant to the evaluation of the firm's independence; and
  - (d) If applicable, the fact that the total fees received by the firm from the audit client represent, or are likely to represent, **more than 15%** of the total fees received by the firm for **two consecutive years**, and the year that this situation first arose. (revised para. R410.31)
38. As an exception, the firm may determine not to publicly disclose fee-related information in the case of standalone financial statements of a PIE parent entity and wholly-owned subsidiaries included in group financial statements which are published by the PIE parent entity (revised para. R410.32).

#### *Audit Clients that are Listed Entities or Public Companies*

39. Extant SG410.4A of EP 100 requires the firm to disclose to TCWG of the listed entity or public company when annual fees for NAS represent 50% or more of the total annual audit fees from the audit client and discuss the safeguards it will apply to reduce the threats to an acceptable level.
40. Findings from the ISCA's survey of audit committee members (paras. 6 – 8) reflect support of the majority for several key recommendations which address NAS independence concerns, including:

- (a) Having a threshold to trigger review and approval of TCWG on provision of NAS by the firm and that computation of such threshold should cover only related entities over which the client has direct or indirect control.**

Fee information on NAS provided by network firms (of the audit firm) to the related entities of the audit client (parent, penultimate parent, ultimate parent and sister entities of the audit client) is important. However, it is practically difficult for network firms to obtain such fee information on NAS to parent and sister entities.

Accordingly, we recommend excluding NAS fees earned by network firms from audit client's parent and sister entities in the fee proportion computation. To mitigate threats arising from NAS fees earned by network firms to parent and sister entities, the audit firm shall obtain confirmation that such fees do not exceed 1% of the network firm's revenue. (para. 40(b))

- (b) For the audit firm to obtain confirmation from each network firm, that the NAS fees earned by the network firm from each of the parent and sister entities of the audit client, do not exceed 1% of the network firm's revenue.**

To address any perceived or real independence threats arising from NAS provided by network firms to parent and sister entities, we recommend that an audit firm obtain confirmation from each network firm, that the NAS fees earned by the network firm

from the parent, penultimate parent, ultimate parent and sister entities of the audit client do not exceed 1% of the network firm's revenue.

If the amount exceeds 1%, audit firm to apply safeguards by providing to TCWG either a confirmation from

- (i) the audit firm that there is no undue influence from network firms on the audit firm for the execution of audit; or
- (ii) the audit firm's ethics and independence partner (or equivalent) that there is no undue influence from network firms on the audit firm for its execution of audit.

**(c) To develop a concept of "audit-related services" (ARS) and to exclude ARS from the computation of the threshold.**

IESBA has viewed that any type of fee is relevant to the evaluation of the level of threat created by a high proportion of fees for services other than audit, even fees for ARS and it would be impracticable to specify which services are ARS at a global level. (para. 23)

For purposes of fee proportion computation locally, we view that the scope of non-audit services under the extant Code might be too wide as it covers all services other than audit and review engagements. Inclusion of ARS in the computation of the threshold would be distortive especially in instances where TCWG would prefer that the audit firm provides ARS for efficiency purposes and potential cost savings.

Scoping out ARS from the current definition of NAS would better reflect the essence of what NAS is. This would better assist the public in their judgments and assessment about the firm's independence.

Accordingly, we propose to include a new term, "audit-related services" in the Glossary of EP 100 with reference to the definition of ARS contained in paragraphs 5.35 and 5.36 of UK FRC Revised Ethical Standard 2019 and to exclude ARS in the computation of the threshold.

41. Due consideration of the above findings from ISCA's survey of audit committee members have been taken into account when drafting the revised SG provisions. Accordingly, this ED proposes to replace extant SG410.4A with revised SG410.27A and SG410.27B applicable to audit clients that are listed entities, and to include a new term, "audit-related services" in the Glossary of EP 100 to incorporate the above key recommendations.

### **Revised NAS Provisions**

42. Key revisions to Section 600 and topic-specific Subsections 601 to 610 of EP 100 to adopt the NAS final pronouncement include:
  - New prohibition on audit firms from providing NAS that might create a self-review threat (SRT) to PIE audit clients. (paras. 43 – 45)
  - Elimination of materiality as a factor in determining NAS permissibility. (paras. 46 – 49)
  - New provisions to enable more robust engagement between firms and TCWG of PIE audit clients about independence matters relating to NAS. (paras. 50 – 53)

### ***Self-review Threat Prohibition on PIE Audit Clients***

43. When an audit client is a PIE, stakeholders have heightened expectations regarding the firm's independence and a SRT created by the provision of NAS to such a client cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.
44. A firm or a network firm shall not provide NAS to a PIE audit client if the provision of that

service **might create a SRT** in relation to the audit of the financial statements on which the firm will express an opinion. (revised para. R600.16)

45. As an exception, a firm or a network firm may provide advice and recommendations to PIE audit clients in relation to information or matters arising in the course of an audit provided that:
- The firm does not assume a management responsibility; and
  - The firm applies the conceptual framework to identify, evaluate and address threats, other than SRT, to independence that might be created by the provision of that advice. (revised para. R600.17)

#### *Withdrawal of Materiality Qualifier for PIE Audit Clients*

46. Materiality is not a factor to be taken into account when determining whether the provision of a NAS to a PIE audit client might create a SRT.
47. The extant Code allows the provision of certain types of NAS to PIE audit clients 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.
48. However, with the withdrawal of materiality qualifier for PIE audit clients, the **SRT prohibitions** on provision of the following types of NAS will apply even in cases where the outcome or result of the NAS is **immaterial or not significant** to the financial statements on which the firm will express an opinion such as:
- Accounting and bookkeeping services, including preparing accounting records and financial statements. (revised para. R601.6)
  - Valuation services. (revised paras. R603.5 and R604.19)
  - Preparation of current and deferred tax calculations. (revised para. R604.10)
  - Tax advisory and tax planning services. (revised para. R604.15)
  - Assistance in the resolution of tax disputes. (revised para. R604.24)
  - Acting as an advocate before a tribunal or court to resolve a dispute or litigation. (revised paras. R604.26 and R608.11)
  - Internal audit services relating to internal controls over financial reporting, financial accounting systems or financial statement amounts/disclosures. (revised paras. R605.6 and 605.6 A1)
  - IT systems services which involve designing or implementing financial reporting IT systems. (revised paras. R606.6 and 606.6 A1)
  - Litigation support services. (revised para. R607.6)
  - Legal advice. (revised para. R608.7)
  - Corporate finance services. (revised para. R610.8)

#### *Withdrawal of Materiality Qualifier – All Audit Clients*

49. The materiality qualifier is dropped for **all audit clients**, including non-PIEs when the effectiveness of certain types of tax advice or corporate finance advice is dependent on a particular accounting treatment or presentation in the financial statements which the audit team has doubt as to its appropriateness (revised paras. R604.13 and R610.6)

#### *Required Firm Communication with TCWG of PIE Audit Clients*

50. Firms shall be required to obtain **concurrence from TCWG** of a PIE audit client before providing a NAS to:

- That PIE;
  - Any entity that controls, directly or indirectly, that PIE (i.e., parent); or
  - Any entity that is controlled directly or indirectly by that PIE. (revised para. R600.21)
51. Unless otherwise addressed by a pre-determined process agreed with TCWG, the firm is required to:
- Inform TCWG that the 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; and
  - Provide TCWG with information to enable them to make an informed assessment about the impact of the NAS on the firm's independence. (revised para. R600.21)
52. The purpose of the communication is to enable TCWG of the PIE to have effective oversight of the independence of the firm that audits the financial statements of that PIE. (revised para. 600.20 A1)
53. Whilst TCWG will be required to preapprove provision of individual NAS going forward, retaining a threshold to trigger evaluation of TCWG (revised SG410.27A) would serve as an additional safeguard locally that is over and above requirements at a global level.

### **Effective Date**

54. The proposed changes to Parts 1, 2 and 3 of EP 100 in this ED will be effective as of 15 December 2022.
55. The proposed changes to Part 4A of EP 100 relating to independence for audit and review engagements will be effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022.
56. The proposed changes to Part 4B of EP 100 relating to independence for assurance engagements with respect to underlying subject matter covering periods will be effective for periods beginning on or after 15 December 2022; otherwise, it will be effective as of 15 December 2022.
57. For NAS engagements a firm or network firm has entered into with an audit client, or for NAS engagements a firm has entered into with an assurance client, before 15 December 2022 and for which work has already commenced, the firm or network firm may continue such engagements under the extant provisions of the Code until completed in accordance with the original engagement terms.
58. Early adoption is permitted.

### **Useful Resource**

59. The Staff of IESBA has issued Basis for Conclusions which relate to but does not form part of the Fees and NAS final pronouncements. These Basis for Conclusions explain how the IESBA has addressed the significant matters raised on exposure.
60. The Basis for Conclusions relating to the Fees final pronouncement issued in April 2021 may be downloaded from the IESBA website using this [link](#).
61. The Basis for Conclusions relating to the NAS final pronouncement issued in April 2021 may be downloaded from the IESBA website using this [link](#).

**Appendix to Explanatory Memorandum**

**Mapping Table – Proposed Changes to EP 100**

<b>EP 100</b>	<b>Revised Section of Proposed EP 100</b>	<b>Revised paragraph(s)</b>
<b>Part 1</b>	120 The Conceptual Framework	120.15 A3
<b>Part 2</b>	270 Pressure to Breach the Fundamental Principles	270.3 A2
<b>Part 3</b>	320 Professional Appointments	320.3 A4
	330 Fees and Other Types of Remuneration	330.3 A1, 330.3 A3
<b>Part 4A</b>	400 Applying the Conceptual Framework to Independence for Audit and Review Engagements	revised section
	410 Fees	revised section, including revised SG410.27A and SG410.27B
	525 Temporary Personnel Assignments	R525.4
	600 Provision of Non-Assurance Services to an Audit Client	revised section
	601 – Accounting and Bookkeeping Services	revised subsection 601 – 610
	602 – Administrative Services	
	603 – Valuation Services	
	604 – Tax Services	
	605 – Internal Audit Services	
	606 – Information Technology Systems Services	
	607 – Litigation Support Services	
	608 – Legal Services	
	609 – Recruiting Services	
610 – Corporate Finance Services		
<b>Part 4B</b>	900 Applying the Conceptual Framework to Independence for Assurance Engagements Other than Audit and Review Engagements	revised section
	905 Fees	revised section
	950 Provision of Non-assurance Services to Assurance Clients	revised section
	Glossary, including Lists of Abbreviations	new term, “audit related services”

**PROPOSED CHANGES TO EP 100  
MARK-UP FROM EXTANT VERSION**

**SECTION 120  
THE CONCEPTUAL FRAMEWORK**

...

**Considerations for Audits, Reviews, Other Assurance and Related Services Engagements**

*Independence*

...

120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of audits, reviews and other assurance engagements, the existence of a quality management system designed and implemented by a firm in accordance with the quality management standards issued by the IAASB is an example of such conditions, policies and procedures.

...

[Other paragraphs of extant Section 120 remain unchanged.]

## SECTION 270

### PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

...

#### Requirements and Application Material

##### General

...

270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:

- Pressure related to conflicts of interest:
  - Pressure from a family member bidding to act as a vendor to the professional accountant's employing organisation to select the family member over another prospective vendor.

See also Section 210, *Conflicts of Interest*.

- Pressure to influence preparation or presentation of information:
  - Pressure to report misleading financial results to meet investor, analyst or lender expectations.
  - Pressure from elected officials on public sector accountants to misrepresent programs or projects to voters.
  - Pressure from colleagues to misstate income, expenditure or rates of return to bias decision-making on capital projects and acquisitions.
  - Pressure from superiors to approve or process expenditures that are not legitimate business expenses.
  - Pressure to suppress internal audit reports containing adverse findings.

See also Section 220, *Preparation and Presentation of Information*.

- Pressure to act without sufficient expertise or due care:
  - Pressure from superiors to inappropriately reduce the extent of work performed.
  - Pressure from superiors to perform a task without sufficient skills or training or within unrealistic deadlines.

See also Section 230, *Acting with Sufficient Expertise*.

- Pressure related to financial interests:
  - Pressure from superiors, colleagues or others, for example, those who might benefit from participation in compensation or incentive arrangements to manipulate performance indicators.

See also Section 240, *Financial Interests, Compensation and Incentives Linked to Financial Reporting and Decision Making*.

- Pressure related to inducements:
  - Pressure from others, either internal or external to the employing organisation, to offer inducements to influence inappropriately the judgement or decision making process of an individual or organisation.
  - Pressure from colleagues to accept a bribe or other inducement, for example to accept inappropriate gifts or entertainment from potential vendors in a bidding process.

See also Section 250, *Inducements, Including Gifts and Hospitality*.

- Pressure related to non-compliance with laws and regulations:
  - Pressure to structure a transaction to evade tax.

See also Section 260, *Responding to Non-compliance with Laws and Regulations*.

- Pressure related to level of fees
  - Pressure exerted by a professional accountant on another professional accountant to provide professional services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with technical and professional standards.

See also Section 330, *Fees and Other Types of Remuneration*

...

[Other paragraphs of extant Section 270 remain unchanged.]

## SECTION 320

### PROFESSIONAL APPOINTMENTS

...

#### Requirements and Application Material

#### Client and Engagement Acceptance

...

320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
  - The nature of the client's business;
  - The complexity of its operations;
  - The requirements of the engagement; and
  - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.
- The level of fees and the extent to which they have regard to the resources required, taking into account the professional accountant's commercial and market priorities.

...

[Other paragraphs of extant Section 320 remain unchanged.]

## SECTION 330

### FEEES AND OTHER TYPES OF REMUNERATION

...

#### Application Material

#### Level of Fees

330.3 A1 The level of fees ~~quoted~~ might impact a professional accountant's ability to perform professional services in accordance with technical and professional standards.

...

330.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are ~~charged~~ determined and which professional services ~~the quoted fee are~~ covered s.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

...

[Other paragraphs of extant Section 330 remain unchanged.]

## SECTION 400

### APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

#### Introduction

##### General

...

400.2 This Part applies to both audit and review engagements unless otherwise stated. The terms “audit,” “audit team,” “audit engagement,” “audit client,” and “audit report” apply equally to review, review team, review engagement, review client, and review engagement report.

...

#### Requirements and Application Material

##### General

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

**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.

#### Prohibition on Assuming Management Responsibilities

~~600.7~~**R400.13** A firm or a network firm shall not assume a management responsibility for an audit client.

~~600.7~~**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.

~~600.7~~**400.13 A2** When a firm or a network firm assumes a management responsibility for an audit client, self-review, self-interest and familiarity threats are created. Providing a non-assurance service to an audit client creates self-review and self-interest threats if the firm or network firm assumes a management responsibility when performing the service. Assuming a management responsibility also creates a familiarity threat and might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

~~600.7~~**400.13 A3** Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

- 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.
- Authorising 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.

~~600.7~~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. The provision of advice and recommendations to an audit client might create a self-review threat and is addressed in Section 600. (Ref: Para. R600.7 to 600.7 A3).

~~R600.8~~R400.14 When performing a professional activity for an audit client, To avoid assuming a management responsibility when providing any non-assurance service to an audit client, the firm shall be satisfied that client management makes all judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

(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 servicesactivities. Such an individual, preferably within senior management, would understand:

- (i) The objectives, nature and results of the servicesactivities; 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 servicesactivities.

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

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

**[Paragraphs 400.13-15 to 400.19 are intentionally left blank]**

...

#### **Period During which Independence is Required**

...

**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~~ Services provided to the audit client by the firm or a network firm in prior financial statement periods.

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 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion.

400.31 ~~A2~~A3 Examples of actions that might be safeguards to address such threats to independence include:

- ~~Using professionals who are not audit team members to perform the service~~Not assigning professionals who performed the non-assurance service to be members of the engagement team.
- Having an appropriate reviewer review the audit ~~work~~ work ~~and~~ non-assurance ~~work~~ service 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.

400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the audit engagement period or prior to the period covered by the financial statements on which the firm will express an opinion is eliminated or reduced to an acceptable level if the results of such service have been used or implemented in a period audited by another firm.

*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 might create a self-review threat in relation to the financial statements on which the firm will express an opinion unless:

- (a) The provision of such service ceases before the commencement of the audit engagement period;
- (b) The firm takes action to address any threats to its independence; and
- (c) The firm determines that, in the view of a reasonable and informed third party, any threats to the firm's independence have been or will be eliminated or reduced to an acceptable level.

400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of non-assurance services to a public interest entity prior to appointment as auditor of that entity include:

- The results of the service had been subject to auditing procedures in the course of the audit of the prior year's financial statements by a predecessor firm.
- 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 consistent with the objective of an engagement quality review.
- The public interest entity engages another firm outside of the network to:
  - (i) Evaluate the results of the non-assurance service; or
  - (ii) Re-perform the service,to the extent necessary to enable the other firm to take responsibility for the result of the service.

**[Paragraphs 400.32-33 to 400.39 are intentionally left blank]**

...

[Other paragraphs of extant Section 400 remain unchanged.]

## SECTION 410

### FEES

#### Introduction

- 410.1 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.
- 410.2 Section 330 sets out application material relevant to applying the conceptual framework where the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to audit clients in such circumstances.

#### Requirements and Application Material

##### General

- 410.3 A1 Fees for professional services are usually negotiated with and paid by an audit client and might create threats to independence. This practice is generally recognized and accepted by intended users of financial statements.
- 410.3 A2 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for audit clients that are public interest entities.
- 410.3 A3 For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of financial statements. Where reference is made to the fee for the audit of the financial statements, this does not include any fee for an audit of special purpose financial statements or a review of financial statements. (Ref: Para. R410.23(a), 410.25 A1 and R410.31(a))

##### Fees Paid by an Audit Client

- 410.4 A1 When fees are negotiated with and paid by an audit client, this creates a self-interest threat and might create an intimidation threat to independence.
- 410.4 A2 The application of the conceptual framework requires that before a firm or network firm accepts an audit or any other engagement for an audit client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period for the audit.
- 410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client include:
- The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
  - Any linkage between fees for the audit and those for services other than audit and the relative size of both elements.
  - The extent of any dependency between the level of the fee for, and the outcome of, the service.

- Whether the fee is for services to be provided by the firm or a network firm.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The operating structure and the compensation arrangements of the firm and network firms.
- The significance of the client, or a third party referring the client, to the firm, network firm, partner or office.
- The nature of the client, for example whether the client is a public interest entity.
- The relationship of the client to the related entities to which the services other than audit are provided, for example when the related entity is a sister entity.
- The involvement of those charged with governance in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of the audit and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the firm's audit work is subject to the review of an independent third party, such as an oversight body.

410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly the existence of a quality management system designed and implemented by the firm in accordance with quality management standards issued by the IAASB) might also impact the evaluation of whether the threats to independence are at an acceptable level.

410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

### **Level of Audit Fees**

410.5 A1 Determining the fees to be charged to an audit client, whether for audit or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the audit fee paid by the audit client include:

- The firm's commercial rationale for the audit fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the audit fee.

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

- Having an appropriate reviewer who does not take part in the audit engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the audit engagement review the work performed.

### **Impact of Other Services Provided to an Audit Client**

**R410.6** Subject to paragraph R410.7, a firm shall not allow the audit fee to be influenced by the provision of services other than audit to an audit client by the firm or a

network firm.

410.6 A1 The audit fee ordinarily reflects a combination of matters, such as those identified in paragraph 410.23 A1. However, the provision of other services to an audit client is not an appropriate consideration in determining the audit fee.

R410.7 As an exception to paragraph R410.6, when determining the audit fee, the firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than audit to an audit client.

### **Contingent Fees**

410.9-8 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

**R410.409** A firm shall not charge directly or indirectly a contingent fee for an audit engagement.

**R410.4110** A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an audit client, if:

- (a) The fee is charged by the firm expressing the opinion on the financial statements and the fee is material or expected to be material to that firm;
- (b) The fee is charged by a network firm that participates in a significant part of the audit and the fee is material or expected to be material to that firm; or
- (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to the audit of a material amount in the financial statements.

410.42-10 A1 Paragraphs R410.40-9 and R410.41-10 preclude a firm or a network firm from entering into certain contingent fee arrangements with an audit client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an audit client, it might still impact the level of the self-interest threat a self-interest threat might still be created.

410.42-10 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the financial statements.

410.42-10 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the firm.
- Obtaining an advance written agreement with the client on the basis of remuneration.

### **Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee**

410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing

services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor's independence.

410.11 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than audit to the audit fee.
- The length of time during which a large proportion of fees for services other than audit to the audit fee has existed.
- The nature, scope and purposes of the services other than audit, including:
  - Whether they are recurring services.
  - Whether law or regulation mandates the services to be performed by the firm.

410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.
- Reducing the extent of services other than audit provided to the audit client.

### **Total Fees – Overdue Fees**

410.7-12 A1 ~~The level of the self-interest threat might be impacted if fees payable by an audit client for the audit or services other than audit are overdue during the period of the audit engagement. A self-interest threat might be created if a significant part of fees is not paid before the audit report for the following year is issued.~~

410.12 A2 ~~It is generally expected that the firm will require-obtain payment of such fees before such-the audit report is issued. ~~The requirements and application material set out in Section 511 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.~~~~

410.12 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the firm.
- The length of time the fees have been overdue.
- The firm's assessment of the ability and willingness of the audit client to pay the overdue fees.

410.7-12 A2A4 ~~Examples of actions that might be safeguards to address such a self-interest threat include:~~

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the audit engagement review the audit work ~~performed~~.

**R410.813** When a significant part of the fees due from an audit client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in section 511 are applicable; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement.

## Total Fees – Fee Dependency Fees – Relative Size

### All Audit Clients

410.3-14 A1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on ~~that client~~ and concern about the potential loss of, fees from audit and other services from that client ~~losing the client~~ impact the level of the ~~create a~~ self-interest threat and ~~create an~~ intimidation threat.

410.14 A2 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

410.3-14 A2A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:

- The operating structure of the firm.
- Whether the firm is expected to diversify such that any dependence on the audit client is reduced ~~Whether the firm is well established or new.~~
- ~~The significance of the client qualitatively and/or quantitatively to the firm.~~

410.3-14 A3A4 ~~An e~~Examples of ~~an~~ actions that might be ~~a~~ safeguards to address such threats include: ~~a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the audit client.~~

- Having an appropriate reviewer who is not a member of the firm review the audit work.
- Reducing the extent of services other than audit provided to the audit client.
- Increasing the client base of the firm to reduce dependence on the client.
- Increasing the extent of services provided to other clients.

410.143 A4A5 A self-interest or intimidation threat is ~~also~~ created when the fees generated by a firm from an audit client represent a large proportion of the revenue of one partner or one office of the firm.

410.3-14 A5A6 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the audit client ~~The significance of the client qualitatively and/or quantitatively~~ to the partner or office.
- The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.

410.143 A76 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- ~~Increasing the client base of the partner or the office to reduce dependence on the audit client.~~
- Having an appropriate reviewer who ~~did not take part~~ was not involved in the audit engagement review the audit work.
- Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than audit provided by the partner or office to the audit client.
- Increasing the client base of the partner or the office to reduce dependence on the audit client.
- Increasing the extent of services provided by the partner or the office to other

clients.

#### Audit Clients that are Not Public Interest Entities

**R410.15** When for each of five consecutive years total fees from an audit client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:

- (a) Prior to the audit opinion being issued on the fifth year's financial statements, have a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, review the fifth year's audit work; or
- (b) After the audit opinion on the fifth year's financial statements has been issued, and before the audit opinion is issued on the sixth year's financial statements, have a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, or a professional body review the fifth year's audit work.

**R410.16** If the total fees described in paragraph R410.15 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R410.15 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the firm from the client, and if so, apply it.

**R410.17** When two or more firms are engaged to conduct an audit of the client's financial statements, the involvement of the other firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.15 (a), if:

- (a) The circumstances addressed by paragraph R410.15 apply to only one of the firms expressing the audit opinion; and
- (b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.

#### Audit Clients that are Public Interest Entities

**R410.418** When for each of two consecutive years the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the audit opinion being issued on the second year's financial statements, a review, consistent with the objective of an engagement quality review, performed by a professional accountant who is not a member of the firm expressing the opinion on the financial statements ("pre-issuance review") might be a safeguard to reduce the threats to an acceptable level, and if so, apply it. ~~Where an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities represent more than 15% of the total fees received by the firm expressing the opinion on the financial statements of the client, the firm shall:~~

- ~~(a) Disclose to those charged with governance of the audit client the fact that the total of such fees represents more than 15% of the total fees received by the firm; and~~
- ~~(b) Discuss whether either of the following actions might be a safeguard to address the threat created by the total fees received by the firm from the client, and if so, apply it:~~
  - ~~(i) Prior to the audit opinion being issued on the second year's financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, performs an engagement quality control review of that engagement; or a professional body performs a review of that engagement~~

~~that is equivalent to an engagement quality control review (“a pre-issuance review”); or~~

- ~~(ii) After the audit opinion on the second year’s financial statements has been issued, and before the audit opinion being issued on the third year’s financial statements, a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, or a professional body performs a review of the second year’s audit that is equivalent to an engagement quality control review (“a post-issuance review”).~~

~~**R410.5** When the total fees described in paragraph R410.4 significantly exceed 15%, the firm shall determine whether the level of the threat is such that a post-issuance review would not reduce the threat to an acceptable level. If so, the firm shall have a pre-issuance review performed.~~

~~**R410.6** If the fees described in paragraph R410.4 continue to exceed 15%, the firm shall each year:~~

~~(a) Disclose to and discuss with those charged with governance the matters set out in paragraph R410.4; and~~

~~(b) Comply with paragraphs R410.4(b) and R410.5.~~

~~**R410.19** When two or more firms are engaged to conduct an audit of the client’s financial statements, the involvement of the other firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.18, if:~~

~~(a) The circumstances addressed by paragraph R410.18 apply to only one of the firms expressing the audit opinion; and~~

~~(b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.~~

~~**R410.20** Subject to paragraph R410.21, if the circumstances described in paragraph R410.18 continue for five consecutive years, the firm shall cease to be the auditor after the audit opinion for the fifth year is issued.~~

~~**R410.21** As an exception to paragraph R410.20, the firm may continue to be the auditor after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:~~

~~(a) The firm consults with a regulatory or professional body in the relevant jurisdiction and it concurs that having the firm continue as the auditor would be in the public interest; and~~

~~(b) Before the audit opinion on the sixth and any subsequent year’s financial statements is issued, the firm engages a professional accountant, who is not a member of the firm expressing the opinion on the financial statements, to perform a pre-issuance review.~~

~~410.21 A1 A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the audit engagement, having regard to the nature and location of the client’s business.~~

## **Transparency of Information Regarding Fees for Audit Clients that are Public Interest Entities**

### *Communication About Fee-related Information with Those Charged with Governance*

~~410.22 A1 Communication by the firm of fee-related information (for both audit and services other than audit) with those charged with governance assists in their assessment of the firm’s independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of audit work and impact on the audit fee.~~

## Fees for the Audit of the Financial Statements

**R410.23** Subject to paragraph R410.24, the firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:

- (a)** Fees paid or payable to the firm or network firms for the audit of the financial statements on which the firm expresses an opinion; and
- (b)** Whether the threats created by the level of those fees are at an acceptable level, and if not, any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

**410.23 A1** The objective of such communication is to provide the background and context to the fees for the audit of the financial statements on which the firm expresses an opinion to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
  - The scale, complexity and geographic spread of the audit client's operations.
  - The time spent or expected to be spent commensurate with the scope and complexity of the audit.
  - The cost of other resources utilized or expended in performing the audit.
  - The quality of record keeping and processes for financial statements preparation.
- Adjustments to the fees quoted or charged during the period of the audit, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the audit that impacted the fees.

**410.23 A2** The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

**R410.24** As an exception to paragraph R410.23, the firm may determine not to communicate the information set out in paragraph R410.23 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a)** The entity is consolidated into group financial statements prepared by that other public interest entity; and
- (b)** The firm or a network firm expresses an opinion on those group financial statements.

## Fees for Other Services

**R410.25** Subject to paragraph R410.27, the firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:

- (a)** The fees, other than those disclosed under paragraph R410.23 (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion; and
- (b)** As set out in paragraph 410.11 A1, where the firm has identified that there is an impact on the level of the self-interest threat or that there is an intimidation

threat to independence created by the proportion of fees for services other than audit relative to the audit fee:

- (i) Whether such threats are at an acceptable level; and
- (ii) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.25 A1 The objective of such communication is to provide the background and context to the fees for other services to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees for other services that are required by law or regulation.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees.
- The proportion of fees referred to in paragraph R410.25(a) to the aggregate of the fees charged by the firm and network firms for the audit of the financial statements on which the firm expresses an opinion.

**R410.26** The firm shall include in the communication required by paragraph R410.25(a) the fees, other than those disclosed under paragraph R410.23(a), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm, when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence.

410.26 A1 Factors the firm might consider when determining whether the fees, other than those disclosed under paragraph R410.23(a), charged to such other related entities, individually and in the aggregate, for the provision of services by the firm or a network firm are relevant to the evaluation of the firm's independence include:

- The extent of the audit client's involvement in the appointment of the firm or network firm for the provision of such services, including the negotiation of fees.
- The significance of the fees paid by the other related entities to the firm or a network firm.
- The proportion of fees from the other related entities to the fees paid by the client.

**R410.27** As an exception to paragraph R410.25, the firm may determine not to communicate the information set out in paragraph R410.25 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity is consolidated into group financial statements prepared by that other public interest entity; and
- (b) The firm or a network firm expresses an opinion on those group financial statements.

**Audit Clients that are Listed Entities** ~~or Public Companies~~

**SG410.4A27A** Where an audit client is a listed entity ~~or a public company~~ and the amount of annual fees received by the firm or its network firms for ~~non-audit services~~ other than audit ("such fees") compared to the total annual audit fees from the audit client is 50% or more, the firm shall disclose to those charged with governance of the audit client to whom the firm is expressing the opinion on the financial

statements the fact that the total of such fees represent 50% or more of total annual audit fees received by the firm or its network firms and discuss the safeguards it will apply to reduce the threat to an acceptable level.

For this purpose:

- (a) such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control; and
- (b) such fees shall not include the fees received for audit-related services as defined in the Glossary.

Examples of a safeguards that could be considered and applied include: is having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.

- (a) Independent internal or external quality control reviews of the engagement; and
- (b) Consulting a third party, such as a professional regulatory body or other professional accountant, on key audit judgements.

**SG410.27B** The firm shall obtain confirmation from each network firm that provides services other than audit to:

- (a) an entity that has direct or indirect control over the audit client if the client is material to such entity<sup>1</sup>; and
- (b) an entity which is under common control with the audit 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<sup>2</sup>;

such that the total fees for such services received by the network firm do not exceed 1% of that network firm's revenue for the year.

When such fees for services other than audit exceed 1% of the network firm's revenue for the year, the firm or the ethics and independence partner (or equivalent) of the firm shall communicate in a timely manner with those charged with governance of the audit client for which that firm is expressing the audit opinion that there is no undue influence from the network firm on the firm's execution of audit.

#### Fee Dependency

**R410.28** Where the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance:

- (a) That fact and whether this situation is likely to continue;
- (b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R410.18); and
- (c) Any proposal to continue as the auditor under paragraph R410.21.

#### Public Disclosure of Fee-related Information

**410.29 A1** In view of the public interest in the audits of public interest entities, it is beneficial for stakeholders to have visibility about the professional relationships between the firm and the audit client which might reasonably be thought to be relevant to the evaluation of the firm's independence. In a wide number of jurisdictions, there already exist requirements regarding the disclosure of fees by an audit client for both audit and services other than audit paid and payable to the firm and network

<sup>1</sup> Subparagraph (a) of the definition of a related entity in the Glossary.

<sup>2</sup> Subparagraph (e) of the definition of a related entity in the Glossary.

firms. Such disclosures often require the disaggregation of fees for services other than audit into different categories.

**R410.30** If laws and regulations do not require an audit client to disclose audit fees, fees for services other than audit paid or payable to the firm and network firms and information about fee dependency, the firm shall discuss with those charged with governance of an audit client that is a public interest entity:

**(a)** The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and

**(b)** The information that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence.

**410.30 A1** Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include:

- Comparative information of the prior year's fees for audit and services other than audit.
- The nature of services and their associated fees as disclosed under paragraph R410.31(b).
- Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.

**R410.31** After the discussion with those charged with governance as set out in paragraph R410.30, to the extent that the audit client that is a public interest entity does not make the relevant disclosure, subject to paragraph R410.32, the firm shall publicly disclose:

**(a)** Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion;

**(b)** Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion;

**(c)** Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence; and

**(d)** If applicable, the fact that the total fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.

**410.31 A1** The firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the firm's independence, such as the examples described in paragraph 410.30 A1.

**410.31 A2** Factors the firm might consider when making the determination required by paragraph R410.31(c) are set out in paragraph 410.26 A1.

**410.31 A3** When disclosing fee-related information in compliance with paragraph R410.31,

the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the firm's website.
- In the firm's transparency report.
- In an audit quality report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the auditor's report.

**R410.32** As an exception to paragraph R410.31, the firm may determine not to publicly disclose the information set out in paragraph R410.31 relating to:

- (a)** A parent entity that also prepares group financial statements provided that the firm or a network firm expresses an opinion on the group financial statements; or
- (b)** An entity (directly or indirectly) wholly-owned by another public interest entity provided that:
  - (i)** The entity is consolidated into group financial statements prepared by that other public interest entity; and
  - (ii)** The firm or a network firm expresses an opinion on those group financial statements.

#### Considerations for Review Clients

**R410.33** This section sets out requirements for a firm to communicate fee-related information of an audit client that is a public interest entity and to disclose publicly fee-related information to the extent that the client does not disclose such information. As an exception to those requirements, the firm may determine not to communicate or pursue disclosure of such information where a review client is not also an audit client.

## SECTION 525

### TEMPORARY PERSONNEL ASSIGNMENTS

...

#### Requirements and Application Material

##### General

...

**R525.4** A firm or network firm shall not loan personnel to an audit client unless the firm or network firm is satisfied that:

- (a) Such assistance is provided only for a short period of time;
- ~~(b) The personnel are not involved in providing non-assurance services that would not be permitted under Section 600 and its subsections; and~~
- ~~(b)~~ Such personnel ~~do~~ will not assume management responsibilities and the audit client ~~is~~ will be responsible for directing and supervising the activities of ~~the~~ such personnel;
- ~~(c)~~ Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and
- ~~(d)~~ Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.

...

[Other paragraphs of extant Section 525 remain unchanged.]

## 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.
- 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.
- 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 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. ~~Some of the subsections include requirements that expressly prohibit a firm or network firm from providing certain services to an audit client in certain circumstances because the threats created cannot be addressed by applying safeguards.~~

600.6 A24 ~~Some of the subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to an audit client in certain circumstances because the threats created cannot be~~ eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level ~~addressed by applying safeguards.~~

600.4 A25 ~~New business practices, the evolution of financial markets and changes in information technology, are among the~~ some ~~developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might be provided to an audit client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material~~ As a result, the Code does not include an exhaustive list of all non-assurance services that might be provided to an audit client.

#### Requirements and Application Material

##### General

##### *Non-Assurance Services Provisions in Laws or Regulations*

600.6 A1 ~~Paragraphs R100.6 to 100.7 A1 set out requirements 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.~~

##### *Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service*

600.7 A1 ~~When a firm or a network firm provides a non-assurance service to an audit client, there is a risk that the firm or 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.~~

##### *Accepting an Engagement to Provide a Non-Assurance Service*

**R600.48** 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~~determine whether providing such a service might create a threat to independence.~~

~~600.4 A1 The requirements and application material in this section assist the firm in analysing certain types of non-assurance services and the related threats that might be created if a firm or network firm provides non-assurance services to an audit client.~~

~~600.4 A2 New business practices, the evolution of financial markets and changes in information 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 audit client. As a result, the Code does not include an exhaustive list of all non-assurance services that might be provided to an audit client.~~

### Identifying and Evaluating Threats

#### All Audit Clients

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

600.5-9 A1A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit client, and evaluating the level of such threats ~~created by providing a non-assurance service to an audit client~~ include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- ~~● The degree of reliance that will be placed on the outcome of the service as part of the audit.~~
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity. For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of a threat.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent of to which the client's involvement in determining significant matters of judgement. (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 level of expertise of the client's management and employees with respect to the type of service provided.~~
- ~~● The extent of the client's involvement in determining significant matters of judgement.~~

- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
  - Accounting records or financial statements on which the firm will express an opinion.
  - Internal controls over financial reporting.
- ~~Whether the client is a public interest entity. For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of a threat. The degree of reliance that will be placed on the outcome of the service as part of the audit.~~
- The fee relating to the provision of the non-assurance service.

600.5-9 A2A3 Subsections 601 to 610 include examples of additional factors that are relevant in identifying threats to independence created by providing certain non-assurance services, and evaluating the level of such threats ~~created by providing the non-assurance services set out in these subsections.~~

#### Materiality in relation to financial statements

600.510 A13 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an audit client. 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 SSA 320, *Materiality in Planning and Performing an Audit*, and in relation to a review in SSRE 2400 (Revised), *Engagements to Review Historical Financial Statements*. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

600.10 A2 Where the Code expressly prohibits the provision of a non-assurance service to an audit client, a firm or a network firm is not permitted to provide that service, regardless of the materiality of the outcome or results of the non-assurance service on the financial statements on which the firm will express an opinion.

#### Providing advice and recommendations

600.11 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 paragraph R600.14. Where the audit client is not a public interest entity and a self-review threat is identified, the firm is required to apply the conceptual framework to evaluate and address the threat. If the audit client is a public interest entity, paragraphs R600.16 and R600.17 apply.

#### Multiple non-assurance services provided to the same audit client

~~600.5 A4~~R600.12 When a firm or a network firm might provides multiple non-assurance services to an audit client, the firm shall consider whether, in addition to the threats created by each service individually, the combined effect of such services creates or impacts threats to independence. In these circumstances the consideration of the combined effect of threats created by providing these services is relevant to the firm's evaluation of threats.

600.12 A1 In addition to paragraph 600.9 A2, factors that are relevant in a firm's evaluation of the level of threats to independence created where multiple non-assurance services are provided to an audit client might include whether:

- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.
- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the audit client.

### Self-review threats

600.13 A1 When a firm or a network firm provides a non-assurance service to an audit client, there might be a risk of the firm auditing its own or the network firm's 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 firm as part of a non-assurance service on which the audit team will rely when forming a judgment as part of an audit.

**R600.14** Before providing a non-assurance service to an audit client, a firm or a network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

- (a)** The results of the service 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 service.

### Audit Clients that are Public Interest Entities

600.15 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.

600.15 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.

### Self-review threats

**R600.16** A firm or a network firm shall not provide a non-assurance service to an audit client that is a public interest entity if the provision of that service might create a self-review threat in relation to the audit of the financial statements on which the firm will express an opinion. (Ref: Para. 600.13 A1 and R600.14).

### Providing advice and recommendations

**R600.17** As an exception to paragraph R600.16, a firm or a network firm may provide advice and recommendations to an audit client that is a public interest entity in relation to information or matters arising in the course of an 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.

~~601.3 A3~~ 600.17 A1 \_\_\_ Examples of advice and recommendations that might be provided in relation to information or matters arising in the course of an audit include The audit process necessitates dialogue between the firm and the management of the audit client, which might involve:

- Advising on Applying accounting and financial reporting standards or policies and financial statement disclosure requirements.
- Advising on Assessing the appropriateness of financial and accounting control

and the methods used in determining the stated amounts in the financial statements and related disclosures of assets and liabilities.

- Proposing adjusting journal entries arising from audit findings.
- Discussing findings on internal controls over financial reporting and processes and recommending improvements.

Discussing how to ~~These activities are considered to be a normal part of the audit process and do not usually create threats as long as the client is responsible for making decisions in the preparation of accounting records and financial statements.~~

- ~~601.3 A4 — Similarly, the client might request technical assistance on matters such as resolving~~ account reconciliation problems.

- Advising on compliance ~~Complying with group accounting policies.~~

Transitioning to a different financial reporting framework such as International Financial Reporting Standards.

Such services do not usually create threats provided neither the firm nor network firm assumes a management responsibility for the client.

## Addressing Threats

### All Audit Clients

~~600.6-18 A1 Subsections 601 to 610 include examples of actions, including safeguards, that might address threats to independence created by providing those non-assurance services when threats are not at an acceptable level. Those examples are not exhaustive.~~

~~600.6 A2 Some of the subsections include requirements that expressly prohibit a firm or network firm from providing certain services to an audit client in certain circumstances because the threats created cannot be addressed by applying safeguards.~~

~~600.6 A3 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. In relation to providing non-assurance services to audit clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level. In some situations, when a threat is created by providing a non-assurance service to an audit client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the audit engagement.~~

600.18 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.

600.18 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 of the outcome of the service from an appropriate authority (for example, a tax authority).

600.18 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:

- (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

All Audit Clients

600.19 A1 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.

Audit Clients that are Public Interest Entities

600.20 A1 Paragraphs R600.21 to R600.23 require a firm to communicate with those charged with governance of a public interest entity before the firm or network firm provides non-assurance services to entities within the corporate structure of which the public interest entity forms part that might create threats to the firm's independence from the public interest entity. The purpose of the communication is to enable those charged with governance of the public interest entity to have effective oversight of the independence of the firm that audits the financial statements of that public interest entity.

600.20 A2 To facilitate compliance with such requirements, a firm might agree with those charged with governance of the public interest entity a process that addresses when and with whom the firm is to communicate. Such a process might:

- Establish the procedure for the provision of information about a proposed non-assurance service which might be on an individual engagement basis, under a general policy, or on any other agreed basis.
- Identify the entities to which the process would apply, which might include other public interest entities within the corporate structure.
- Identify any services that can be provided to the entities identified in paragraph R600.21 without specific approval of those charged with governance if they agree as a general policy that these services are not prohibited under this section and would not create threats to the firm's independence or, if any such threats are created, they would be at an acceptable level.
- Establish how those charged with governance of multiple public interest entities within the same corporate structure have determined that authority for approving services is to be allocated.
- Establish a procedure to be followed where the provision of information necessary for those charged with governance to evaluate whether a proposed service might create a threat to the firm's independence is prohibited or limited by professional standards, laws or regulations, or might result in the disclosure of sensitive or confidential information.
- Specify how any issues not covered by the process might be resolved.

**R600.21** Before a firm that audits the financial statements of a public interest entity, or a network firm accepts an engagement to provide a non-assurance service to:

- (A) That public interest entity;
- (B) Any entity that controls, directly or indirectly, that public interest entity; or
- (C) Any entity that is controlled directly or indirectly by that public interest entity.

the firm shall, unless already addressed when establishing a process agreed with those charged with governance:

- (a) Inform those charged with governance of the public interest entity that the firm has determined that the provision of the service:
  - (i) Is not prohibited; and
  - (ii) Will not create a threat to the firm's independence as auditor of the public interest entity or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
- (b) Provide those charged with governance of the public interest entity with information to enable them to make an informed assessment about the impact of the provision of the service on the firm's independence.

600.21 A1 Examples of information that might be provided to those charged with governance of the public interest entity in relation to a particular non-assurance service include:

- The nature and scope of the service to be provided.
- The basis and amount of the proposed fee.
- Where the firm has identified any threats to independence that might be created by the provision of the proposed service, the basis for the firm's assessment that the threats are at an acceptable level or, if not, the actions the firm or network firm will take to eliminate or reduce any threats to independence to an acceptable level.
- Whether the combined effect of providing multiple services creates threats to independence or changes the level of previously identified threats.

R600.22 A firm or a network firm shall not provide a non-assurance service to any of the entities referred to in paragraph R600.21 unless those charged with governance of the public interest entity have concurred either under a process agreed with those charged with governance or in relation to a specific service with:

- (a) The firm's conclusion that the provision of the service will not create a threat to the firm's independence as auditor of the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated, or reduced to an acceptable level; and
- (b) The provision of that service.

R600.23 As an exception to paragraphs R600.21 and R600.22, where a firm is prohibited by applicable professional standards, laws or regulations from providing information about the proposed non-assurance service to those charged with governance of the public interest entity, or where the provision of such information would result in disclosure of sensitive or confidential information, the firm may provide the proposed service provided that:

- (a) The firm provides such information as it is able without breaching its legal or professional obligations;
- (b) The firm informs those charged with governance of the public interest entity that the provision of the service will not create a threat to the firm's independence from the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
- (c) Those charged with governance do not disagree with the firm's conclusion in (b).

R600.24 The firm or the network firm, having taken into account any matters raised by those charged with governance of the audit client that is a public interest entity or by the

entity referred to in paragraph R600.21 that is the recipient of the proposed service, shall decline the non-assurance service or the firm shall end the audit engagement if:

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

#### ~~Prohibition on Assuming Management Responsibilities~~

~~**R600.7** A firm or a network firm shall not assume a management responsibility for an audit client.~~

~~600.7 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.~~

~~600.7 A2 Providing a non-assurance service to an audit client creates self-review and self-interest threats if the firm or network firm assumes a management responsibility when performing the service. Assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.~~

~~600.7 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:~~

- ~~● 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.~~
- ~~● Authorising 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.~~

~~600.7 A4 Providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. (Ref: Para. R600.7 to 600.7 A3).~~

~~**R600.8** To avoid assuming a management responsibility when providing any non-assurance service to an audit client, the firm shall be satisfied that client management makes all judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's~~

~~management:~~

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

~~(i) The objectives, nature and results of the services; and~~

~~(ii) The respective client and firm or network firm responsibilities.~~

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

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

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

### ~~Providing Non-Assurance Services to an Audit Client that Later Becomes a Public Interest Entity~~

**R600.925** 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:

- (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 and those charged with governance of the client that becomes a public interest entity agree and take further actions to address any threats to independence that are ~~created that are~~ not at an acceptable level.

600.25 A1 Examples of actions that the firm might recommend to the audit client include engaging another firm to:

- Review or re-perform the affected audit work to the extent necessary.
- Evaluate the results of the non-assurance service or 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*

**R600.1026** This section includes requirements that prohibit firms and network firms from ~~assuming management responsibilities or~~ 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:

- (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 ~~because the results of the services will not be subject to audit procedures~~; and
- (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

### Documentation

600.27 A1 Documentation of the firm's conclusions regarding compliance with this section in accordance with paragraphs R400.60 and 400.60 A1 might include:

- Key elements of the firm's understanding of the nature of the non-assurance service to be provided and whether and how the service might impact the financial statements on which the firm will express an opinion.
- The nature of any threat to independence that is created by providing the service to the audit client, including whether the results of the service will be subject to audit procedures.
- The extent of management's involvement in the provision and oversight of the proposed non-assurance service.
- Any safeguards that are applied, or other actions taken to address a threat to independence.
- The firm's rationale for determining that the service is not prohibited and that any identified threat to independence is at an acceptable level.
- In relation to the provision of a proposed non-assurance service to the entities referred to in paragraph R600.21, the steps taken to comply with paragraphs R600.21 to R600.23.

## **SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES**

### **Introduction**

~~601.1 Providing accounting and bookkeeping services to an audit client might create a self-review threat.~~

601.21 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 R600.10 are relevant to applying the conceptual framework when providing an audit client with accounting and bookkeeping services to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain accounting and bookkeeping services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.~~

### **Requirements and Application Material**

#### **All Audit ClientsGeneral**

~~601.3 A1 Accounting and bookkeeping services comprise a broad range of services including:~~

- ~~• Preparing accounting records and financial statements.~~
- ~~• Recording transactions.~~
- ~~• Payroll services.~~

601.3-2 A2A1 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

- 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.

### Description of Service

601.3 A1 Accounting and bookkeeping services comprise a broad range of services including:

- Preparing accounting records and financial statements.
- Recording transactions.
- Providing payroll services.
- Resolving account reconciliation problems.
- Converting existing financial statements from one financial reporting framework to another.

~~601.3 A3 The audit process necessitates dialogue between the firm and the management of the audit client, which might involve:~~

- ~~• 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.~~

~~These activities are considered to be a normal part of the audit process and do not usually create threats as long as the client is responsible for making decisions in the preparation of accounting records and financial statements.~~

~~601.3 A4 Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analysing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another. Examples include:~~

- ~~• Complying with group accounting policies.~~
- ~~• Transitioning to a different financial reporting framework such as International Financial Reporting Standards.~~

~~Such services do not usually create threats provided neither the firm nor network firm assumes a management responsibility for the client.~~

## Potential Threats Arising from the Provision of Accounting and Bookkeeping Services

### All Audit Clients

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

### ~~Accounting and Bookkeeping Services that are Routine or Mechanical~~

~~601.4 A1 Accounting and bookkeeping services that are routine or mechanical in nature require little or no professional judgement. Some examples of these services are:~~

- ~~• 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.~~

### *Audit Clients that are Not Public Interest Entities*

**R601.5** 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:

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

### ~~Accounting and Bookkeeping Services that are Routine or Mechanical~~

~~601.54 A1 Accounting and bookkeeping services that are routine or mechanical:~~

- ~~(a) Involve information, data or material in relation to which the client has made any judgments or decisions that might be necessary; and~~
- ~~(b) in nature. Require little or no professional judgement. Some examples of these services are:~~

601.5 A2 Examples of services that might be regarded as routine or mechanical include:

- 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 or a network firm may provide such services to audit clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.14 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5 (b).

601.5 ~~A1A3~~ Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine ~~and-or~~ 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*

**R601.6** ~~Subject to paragraph R601.7, a~~A firm or a network firm shall not provide ~~to an audit client that is a public interest entity~~ accounting and bookkeeping services to an audit client that is a public interest entity ~~including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements.~~

**R601.7** As an exception to paragraph R601.6, a firm or a network firm may prepare statutory financial statements for a related entity of a public interest entity audit client included in subparagraph (c) or (d) of the definition of a related entity provided that ~~provide accounting and bookkeeping services of a routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity if the personnel providing the services are not audit team members and:~~

- The audit report on the group financial statements of the public interest entity has been issued ~~The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or~~
- The firm or network firm does not assume management responsibility and applies the conceptual framework to identify, evaluate and address threats to independence; ~~The service relates to matters that are collectively immaterial to the financial statements of the division or related entity.~~
- 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
- The statutory financial statements of the related entity will not form the basis of future group financial statements of that public interest entity.

## **SUBSECTION 602 – ADMINISTRATIVE SERVICES**

### **Introduction**

~~602.1 Providing administrative services to an audit client does not usually create a threat.~~

602.~~2~~1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to ~~600.27 A1 R600.10~~ are relevant to applying the conceptual framework when providing administrative services.

## Application Material

### Description of Service~~All Audit Clients~~

602.3-2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. ~~Such services require little to no professional judgement and are clerical in nature.~~

602.3-2 A2 Examples of administrative services include:

- Word processing ~~or document formatting~~ services.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates, and advising an 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.~~

## SUBSECTION 603 – VALUATION SERVICES

### Introduction

~~603.1 Providing valuation services to an audit client might create a self-review or advocacy threat.~~

603.21 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to ~~600.27 A1 R600.10~~ are relevant to applying the conceptual framework when providing valuation services to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain valuation services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.~~

### Requirements and Application Material

#### Description of Service~~All Audit Clients~~

603.3-2 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 ~~a business as a whole~~.

603.23 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 ~~will not~~ have a ~~direct~~ no effect on the accounting records or the financial statements other than through accounting entries related to tax, the requirements, the and application material set out in paragraphs ~~604.17 A1 to 604.19 A1~~ 604.9 A1 to 604.9 A5, relating to such services, applies.

### Potential Threats Arising from the Provision of Valuation Services

#### All Audit Clients

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

603.3 A23 Factors that are relevant in ~~evaluating the level of~~ identifying self-review or advocacy threats created by providing valuation services to an audit client, and evaluating the

level of such threats include:

- 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 judgement.
- 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 ~~and clarity~~ of the disclosures related to the valuation in the financial statements.
- The volatility of the amounts involved as a result of degree of dependence on future events ~~of a nature that might create significant volatility inherent in the amounts involved.~~

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R603.5 applies.

#### Audit Clients that are Not Public Interest Entities

603.3 ~~A4A3~~ Examples of actions that might be safeguards to address self-review or advocacy threats created by providing a valuation service to 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 service performed might address a self-review threat.

#### ~~Audit Clients that are Not Public Interest Entities~~

**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 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.

#### *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 might create a self-review threat. (Ref: Para. R600.14 and R600.16) ~~would have a material effect, individually or in the aggregate, on the financial statements on which the firm will express an opinion.~~

## Advocacy Threats

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

## **SUBSECTION 604 – TAX SERVICES**

### **Introduction**

~~604.1~~ ~~Providing tax services to an audit client might create a self-review or advocacy threat.~~

604.2<sup>1</sup> In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to ~~R600.10~~600.27 A1 are relevant to applying the conceptual framework when providing a tax service to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain tax services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.~~

### **Requirements and Application Material**

#### **Description of Service**~~All Audit Clients~~

604.3<sup>2</sup> A1 Tax services comprise a broad range of services, ~~–. This subsection deals specifically with~~including activities such as:

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

~~While this subsection deals with each type of tax service listed above under separate headings, in practice, the activities involved in providing tax services are often inter-related.~~

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.

#### **Potential Threats Arising from the Provision of Tax Services**

~~604.13 A1~~ ~~Providing tax services to an audit client might create a self-review or advocacy threat when there is a risk that 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.~~

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

- 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 judgement 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 the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.

**604.4 A1** Unless the tax treatment has a basis in applicable tax law or regulation that the firm is confident 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 such threats to an acceptable level.

**A. Tax Return Preparation**

**Description of Service** All Audit Clients

~~604.4 A1 Providing tax return preparation services does not usually create a threat.~~

**604.4-5, A2A1** Tax return preparation services include evolve:

- 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, and
- ~~responding~~ 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).

**Potential Threats Arising from the Provision of Tax Return Preparation Services**

All Audit Clients

~~604.46 A1 Providing tax return preparation services does not usually create a threat because:~~

(a)

~~604.4 A3~~ Tax return preparation services are usually 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) ~~Further, the~~ Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

**B. Tax Calculations for the Purpose of Preparing Accounting Entries**

**Description of Service**

**604.7 A1** Tax calculation services 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.

**Potential Threats Arising from the Provision of Tax Calculation Services**

All Audit Clients

**604.5-8 A1** Preparing tax calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that ~~will be~~

~~subsequently audited by the firm~~ support such balances creates a self-review threat.

#### Audit Clients that are Not Public Interest Entities

604.5-9 ~~A2~~A1 In addition to the factors in paragraph 604.3 A2, a factor that is relevant in evaluating the level of ~~the self-review~~ threat created when preparing such calculations for an audit client is whether the calculation might have a material effect on the financial statements on which the firm will express an opinion.

#### ~~Audit Clients that are Not Public Interest Entities~~

604.5-9 ~~A3~~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.

#### *Audit Clients that are Public Interest Entities*

**R604.610** 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. (Ref: Para. R600.14 and R600.16). ~~for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.~~

~~604.6 A1~~ ~~The examples of actions that might be safeguards in paragraph 604.5 A3 to address self-review threats are also applicable when preparing tax calculations of current and deferred tax liabilities (or assets) to an audit client that is a public interest entity that are immaterial to the financial statements on which the firm will express an opinion.~~

### **C. Tax Advisory and Tax Planning and Other Tax Advisory Services**

#### **Description of Service**

##### ~~All Audit Clients~~

~~604.7 A1~~ ~~Providing tax planning and other tax advisory services might create a self-review or advocacy threat.~~

604.7-11 A2A1 Tax advisory and tax planning ~~or other tax advisory~~ services comprise a broad range of services, such as advising the audit client how to structure its affairs in a tax efficient manner or advising on the application of a ~~new~~ tax law or regulation.

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

##### All Audit Clients

~~604.712~~ A1 Providing tax advisory and tax planning and other tax advisory services to an audit client might create a self-review or advocacy threat when there is a risk that 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.

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

- Are supported by a tax authority or other precedent;
- 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.

604.7-12 A3 In addition to paragraph 604.3 A2, factors that are relevant in evaluating the level of identifying self-review or advocacy threats created by providing tax advisory and tax planning ~~and other tax advisory~~ services to audit clients, and evaluating the level of such threats include:

- 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 ~~private~~ ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.

~~For example, whether the advice provided as a result of the tax planning and other tax advisory services:~~

- ~~○ Is clearly supported by a tax authority or other precedent.~~
- ~~○ Is an established practice.~~
- ~~○ Has a basis in tax law that is likely to prevail.~~

- The extent to which the outcome of the tax advice ~~will~~ might have a material effect on the financial statements.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R604.15 applies.

- ~~• Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework.~~

~~604.7 A4 Examples of actions that might be safeguards to address such threats 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 service performed might address a self-review threat.~~
- ~~• Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.~~

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

**R604.813** A firm or a network firm shall not provide tax advisory and tax planning ~~and other tax advisory~~ services to an audit client when:

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

Audit Clients that are Not Public Interest Entities

604.714 A41 Examples of actions that might be safeguards to address self-review or advocacy such threats created by providing tax advisory and tax planning services to 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 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 might create a self-review threat. (Ref: Para. R600.14, R600.16, 604.12 A2).

##### Advocacy Threats

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

- 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 might arise in a range of circumstances including:

- 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*

**604.9-17 A1** Providing ~~tax a valuation services for tax purposes~~ to an audit client might create a self-review ~~or advocacy~~ threat when there is a risk that the results of the service will affect the accounting records or the financial statements on which the firm will express an opinion. Such a service might also create an advocacy threat.

**604.179 A25** ~~When Aa firm or a network firm might also performs a tax-valuation for tax purposes to assist an audit client with its tax reporting obligations or for tax planning purposes, where the result of the valuation might:~~

- ~~(a) will have a direct~~ 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 Ssubsection 603 relating to valuation services 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.

**604.17 A3** Performing a valuation for tax purposes for an audit client will not create a self-review threat if:

- (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.

#### Audit Clients that are Not Public Interest Entities

604.9-18 A2A1 A firm or a network firm might perform a valuation for tax purposes for an audit client that is not a public interest entity only, where the result of the valuation only affects the accounting records or will not have a direct effect on the financial statements (that is, the financial statements are only affected through accounting entries related to tax). This would not usually create threats if the effect on the financial statements is immaterial or the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.

604.9-18 A3A2 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 paragraph 604.3 A2, the following factors are relevant in evaluating the level of identifying self-review or advocacy threats created by providing those services to an audit client that is not a public interest entity, and evaluating the level of such threats:

- 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.

604.9-18 A4A3 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 service performed might address a self-review threat.
- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

~~604.9 A5 A firm or network firm might also perform a tax valuation to assist an audit client with its tax reporting obligations or for tax planning purposes where the result of the valuation will have a direct effect on the financial statements. In such situations, the requirements and application material set out in Subsection 603 relating to valuation services apply.~~

#### 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 an audit client that is a public interest entity if the provision of that service might create a self-review threat. (Ref: Para. R600.14, R600.16, 604.17 A3).

##### Advocacy Threats

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

- 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**

~~604.210 A21~~ 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. A tax dispute might reach a point when the tax authorities have notified an audit 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, for example, before a public tribunal or court.

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

#### *All Audit Clients*

~~604.210~~ A1 Providing assistance in the resolution of a tax disputes to an audit client might create a self-review ~~or advocacy~~ threat when there is a risk that the results of the service will affect the accounting records or the financial statements on which the firm will express an opinion. Such a service might also create an advocacy threat.

~~604.10 A2~~ A tax dispute might reach a point when the tax authorities have notified an audit 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, for example, before a public tribunal or court.

~~604.10-22~~ A31 In addition to those identified in paragraph 604.3 A2, factors that are relevant in evaluating the level of identifying self-review or advocacy threats created by assisting an audit client in the resolution of tax disputes, and evaluating the level of such threats include:

- 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 ~~was provided~~ 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.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R604.24 applies.

#### *Audit Clients that are Not Public Interest Entities*

~~604.10-23~~ A4A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by assisting an audit client that is not a public interest entity in the resolution of tax disputes 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.

#### *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 might create a self-review threat. (Ref: Para. R600.14 and R600.16).

### 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.

### **Resolution of Tax Matters ~~Involving-Including~~ Acting as An Advocate Before a Tribunal or Court**

#### Audit Clients that are Not Public Interest Entities

**R604.1125** 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 ~~public~~ 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.

#### 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.

~~604.11-27~~ A1 Paragraphs R604.25 and R604.26 ~~R604.11~~ does not preclude a firm or network firm from having a continuing advisory role in relation to the matter that is being heard before a ~~public~~ tribunal or court, for example:

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

~~604.11-27~~ A2 What constitutes a “~~public~~ tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

## **SUBSECTION 605 – INTERNAL AUDIT SERVICES**

### **Introduction**

~~605.1 Providing internal audit services to an audit client might create a self-review threat.~~

**605.21** In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1~~R600.10~~ are relevant to applying the conceptual framework when providing an internal audit service to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain internal audit services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.~~

### **Requirements and Application Material**

#### **Description of Service**~~All Audit Clients~~

~~605.3-2~~ 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 audit activities. Internal audit activities might include:

- 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.

605.3-2 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 ~~management and 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.

### Risk of Assuming Management Responsibility When Providing an Internal Audit Service

**R605.43** Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to an audit client, the firm shall be satisfied that:

- (a) The client designates an appropriate and competent resource, who reports to those charged with governance, preferably within senior management, 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's ~~management or those charged with governance~~ reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client's ~~management~~ evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client's ~~management~~ evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client's ~~management~~ reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

605.4-3 A1 ~~Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility.~~ Performing ~~a significant~~ part of the client's internal audit activities increases the possibility that individuals within the firm or the network firm ~~personnel~~ providing internal audit services will assume a management responsibility.

605.4-3 A2 Examples of internal audit services that involve assuming management responsibilities include:

- 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 there is a risk that the results of the services impact the audit of the financial statements on which the firm will express an opinion.

605.4 ~~A3~~A2 When a firm uses the work of an internal audit function in an audit engagement, SSAs 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 might 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:

- (a) Appropriately evaluating those results; or
- (b) Exercising the same level of professional scepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm.

605.4 ~~A4~~A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to an audit client, and evaluating the level of such a ~~self-review~~ threat include:

- The materiality of the related financial statement 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, ~~including in the course of an external audit.~~

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R605.6 applies.

#### Audit Clients that are Not Public Interest Entities

605.4 ~~5~~A5A1 An example of an action that might be a safeguard to address ~~such~~ a self-review threat created by the provision of an internal audit service to an audit client that is not a public interest entity is using professionals who are not audit team members to perform the service.

#### *Audit Clients that are Public Interest Entities*

**R605.56** 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 might create a self-review threat. (Ref: Para. R600.14 and R600.16). relate to:

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

- ~~(a) — A significant part of t~~he internal controls over financial reporting.;
- ~~(b) — Financial accounting systems that generate information that is, individually or in the aggregate, material to~~for the client's accounting records or financial statements on which the firm will express an opinion.; ~~or~~
- ~~(c) — Amounts or disclosures that are, individually or in the aggregate, material~~relate to the financial statements on which the firm will express an opinion.

## SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

### Introduction

~~606.1 — Providing information technology (IT) systems services to an audit client might create a self-review threat.~~

606.21 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1~~R600.10~~ are relevant to applying the conceptual framework when providing an information technology (IT)~~IT~~ systems service to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain IT systems services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.~~

### Requirements and Application Material

#### Description of Service~~All Audit Clients~~

606.3-2 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.

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.

~~606.3 A2 — Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Providing the following IT systems services to an audit client does not usually create a threat as long as personnel of the firm or network firm do not assume a management responsibility:~~

- ~~(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 a significant part of the accounting records or financial statements;~~
- ~~(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; and~~
- ~~(d) — Evaluating and making recommendations with respect to an IT system designed, implemented or operated by another service provider or the client.~~

## Risk of Assuming Management Responsibility When Providing an IT Systems Service

**R606.43** 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:

- (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.

## Potential Threats Arising from the Provision of IT Systems Services

### All Audit Clients

~~606.14 A1~~ Providing information technology (IT) systems services to an audit client might create a self-review threat when there is a risk that the results of the services will affect the audit of the financial statements on which the firm will express an opinion.

~~606.34 A2~~ Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. Providing the following IT systems services to an audit client does not usually create a threat as long as individuals within personnel of the firm or network firm do not assume a management responsibility:

- ~~(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 a significant 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; and~~
- ~~(d) Evaluating and making recommendations with respect to an IT system designed, implemented or operated by another service provider or the client.~~

606.4 ~~A1~~**A3** Factors that are relevant in identifying evaluating the level of a self-review threat created by providing an IT systems services to an audit client, and evaluating the level of such a threat include:

- The nature of the service.
- The nature of the client's IT systems and the extent to which the IT systems service they 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.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R606.6 applies.

### Audit Clients that are Not Public Interest Entities

606.4-5 A2A1 An example of an action that might be a safeguard to address ~~such~~ a self-review threat created by the provision of an IT systems service to an audit client that is not a public interest entity is using professionals who are not audit team members to perform the service.

### *Audit Clients that are Public Interest Entities*

**R606.56** 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 might create a self-review threat (Ref: Para. R600.14 and R600.16)~~involve designing or implementing IT systems that:~~

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:

- ~~(a)~~ Form ~~a significant~~ part of the internal control over financial reporting; or
- ~~(b)~~ Generate information ~~that is significant to~~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 Providing certain litigation support services to an audit client might create a self-review or advocacy threat.~~

607.21 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1~~R600.10~~ are relevant to applying the conceptual framework when providing a litigation support service to an audit client.

### Requirements and Application Material

#### Description of Service~~All Audit Clients~~

607.3-2 A1 Litigation support services might include activities such as:

- 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 certain litigation support services to an audit client might create a self-review or advocacy threat~~ when there is a risk that 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.

607.3-4 A12 Factors that are relevant in ~~evaluating the level of~~identifying self-review or advocacy threats created by providing litigation support services to an audit client, and evaluating the level of such threats include:

- The legal and regulatory environment in which the service is provided, ~~for example, whether an expert witness is chosen and appointed by a court.~~
- The nature and characteristics of the service.

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

~~607.3 A3 An example of an action that might be a safeguard to address such a self-review or advocacy threat is using a professional who was not an audit team member to perform the service.~~

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R607.6 applies.

607.34 A24 If a firm or a network firm provides a litigation support service to an audit client and the service might 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, the requirements and application material set out in Subsection 603 related to valuation services apply.

#### Audit Clients that are Not Public Interest Entities

~~607.35 A13 An example of an action that might be a safeguard to address such a self-review or advocacy threat created by providing a litigation support service to 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.~~

#### 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 might create a self-review threat. (Ref: Para. R600.14 and R600.16).

607.6 A1 An example of a service that is prohibited because it might create a self-review threat is providing advice in connection with a legal proceeding where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the financial statements on which the firm will express an opinion.

##### Advocacy Threats

607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing a litigation support service 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.

#### Acting as a Witness

##### All Audit Clients

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.

(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.

(b) An expert witness is an individual who gives evidence, including opinions on matters, 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 matter 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.

607.7 A3 The advocacy threat created when acting as an expert witness on behalf of an audit client is at an acceptable level if a firm or a network firm is:

- (a) Appointed by a tribunal or court to act as an expert witness in a matter involving a client; or
- (b) Engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided that:
  - (i) The firm's audit clients constitute less than 20% of the members of the class or group (in number and in value);
  - (ii) No audit client is designated to lead the class or group; and
  - (iii) No audit client is authorized by the class or group to determine the nature and scope of the services to be provided by the firm or the terms on which such services are to be provided.

*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.

*Audit Clients that are Public Interest Entities*

**R607.9** A firm or a network firm, or an individual within a firm or a network firm, shall not act for an audit client that is a public interest entity as an expert witness in a matter unless the circumstances set out in paragraph 607.7 A3 apply.

**SUBSECTION 608 – LEGAL SERVICES**

**Introduction**

~~608.1 Providing legal services to an audit client might create a self-review or advocacy threat.~~

608.21 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1~~R600.10~~ are relevant to applying the conceptual framework when providing a legal service to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain legal services to audit clients in some circumstances because the threats cannot be addressed by applying safeguards.~~

**Requirements and Application Material**

**Description of Service**~~All Audit Clients~~

~~608.3-2~~ 608.2 A1 Legal services are defined as any services for which the individual providing the services must either:

- (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:

- 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~~ 608.3 A1 Providing legal services to an audit client might create a self-review or advocacy threat when there is a risk that 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.

## **A. Providing Legal Advice**

### **Description of Service**

#### *Acting in an Advisory Role*

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

- 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**

#### *All Audit Clients*

608.4-5 A12 Factors that are relevant in ~~evaluating the level of~~identifying self-review or advocacy threats created by providing legal ~~advisory services~~advice to an audit client, and evaluating the level of such threats include:

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

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R608.7 applies.

608.5 A2 Examples of legal advice that might create a self-review threat include:

- 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.

608.5 A3 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.

#### *Audit Clients that are Not Public Interest Entities*

608.4-6 A3A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing legal advice to 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 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**

**R608.7** A firm or a network firm shall not provide legal advice to an audit client that is a public interest entity if the provision of such a service might create a self-review threat. (Ref: Para. R600.14 and R600.16).

## Advocacy Threats

608.8 A1 The considerations in paragraphs 608.5 A1 and 608.5 A3 to 608.6 A1 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advice to an audit client that is a public interest entity.

### **B. Acting as General Counsel**

#### All Audit Clients

**R608.59** A partner or employee of the firm or the network firm shall not serve as General Counsel ~~for legal affairs~~ of an audit client.

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

### **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

**R608.610** A firm or a network firm shall not act in an advocacy role for an audit client that is not a 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.

608.6-10 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 ~~when the amounts involved are not material to the financial statements on which the firm will express an opinion~~ 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 the service performed.

##### Audit Clients that are Public Interest Entities

**R608.11** 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.

## **SUBSECTION 609 – RECRUITING SERVICES**

### **Introduction**

~~609.1 Providing recruiting services to an audit client might create a self-interest, familiarity or intimidation threat.~~

609.21 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 ~~R600.10~~ are relevant to applying the conceptual framework when providing a recruiting service to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain types of recruiting services to audit clients in some circumstances because the threats created cannot be addressed by applying safeguards.~~

### **Requirements and Application Material**

#### **Description of Service** ~~All Audit Clients~~

609.3-2 A1 Recruiting services might include activities such as:

- 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.

~~609.3 A2 Paragraph R600.7 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 personnel of the firm or network firm does not assume a management responsibility:~~

- ~~• 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.~~

### **Risk of Assuming Management Responsibility When Providing a Recruiting Service**

**R609.43** Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. When a firm or network firm provides providing a recruiting services to an audit client, the firm shall be satisfied that:

- (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.

### **Potential Threats Arising from Providing Recruiting Services**

#### All Audit Clients

~~609.4 A1 Providing recruiting services to an audit client might create a self-interest, familiarity or intimidation threat.~~

~~609.34 A2 Paragraph R600.7 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 personnel of the firm or the network firm does not assume a management responsibility:~~

- ~~• 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.~~

~~609.5-4 A1A3~~ Factors that are relevant in evaluating the level of identifying self-interest, familiarity or intimidation threats created by providing recruiting services to an audit client, and evaluating the level of such threats include:

- 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.

609.45 A2A4 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.

#### Recruiting Services that are Prohibited

**R609.65** 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.

**R609.76** A firm or a network firm shall not provide a recruiting service to an audit client if the service relates to:

- (a) Searching for or seeking out candidates; ~~or~~
- (b) Undertaking reference checks of prospective candidates;
- (c) Recommending the person to be appointed; or
- (d) Advising on the terms of employment, remuneration or related benefits of a particular candidate.

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 Providing corporate finance services to an audit client might create a self-review or advocacy threat.~~

610.21 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 ~~R600.10~~ are relevant to applying the conceptual framework when providing a corporate finance service to an audit client. ~~This subsection includes requirements that prohibit firms and network firms from providing certain corporate finance services in some circumstances to audit clients because the threats created cannot be addressed by applying safeguards.~~

#### Requirements and Application Material

##### Description of Service All Audit Clients

610.3-2 A1 Examples of corporate finance services ~~that might create a self-review or advocacy threat~~ include:

- 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 ~~transactions.~~
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements ~~that will directly affect amounts that will be reported in the financial statements on which the firm will express an opinion.~~

## 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 or advocacy threat when there is a risk that 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.

610.3-4 A2A1 Factors that are relevant in identifying self-review or advocacy ~~evaluating the level of such~~ threats created by providing corporate finance services to an audit client, and evaluating the level of such threats include:

- 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 ~~The amounts are material to 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.~~

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R610.8 applies.

~~610.3 A3~~ ~~Examples of actions that might be safeguards to address threats 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 service performed might address a self-review threat.~~

### Corporate Finance Services that are Prohibited

**R610.45** A firm or a network firm shall not provide corporate finance services ~~to an audit client~~ that involve promoting, dealing in, or underwriting the audit client's shares, debt or other financial instruments issued by the audit client or providing advice on investment in such shares, debt or other financial instruments.

**R610.56** A firm or a network firm shall not provide advice in relation to corporate finance ~~advice services~~ to an audit client where:

- (a) ~~the~~ 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
- (ab) The audit team has ~~reasonable~~ doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) ~~The outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion.~~

### Audit Clients that are Not Public Interest Entities

610.37 A31 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing corporate finance services to 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 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 might create a self-review threat. (Ref: Para. R600.14 and R600.16).

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.

## 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.

...

**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.

#### Prohibition on Assuming Management Responsibilities

~~950.6~~**900.13** 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.

~~950.6~~**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.

~~950.6~~**900.13** A2 Providing a non-assurance service to an assurance client creates self-review and self-interest threats if ~~When the~~ a firm assumes a management responsibility when performing the service. In relation to providing a service 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.~~ ~~provided by the firm, a~~ Assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

~~950.6~~**900.13** A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

- 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.
- Authorising 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.

950.6900.13 A4 Subject to compliance with paragraph R900.14, Pproviding advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility. (Ref: Paras. R950.6 to 950.6 A3).

R950.7900.14 To avoid assuming a management responsibility wWhen performing a professional activity for providing non-assurance services to an assurance client that areis 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 judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

(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 servicesactivities. Such an individual, preferably within senior management, would understand:

(i) The objectives, nature and results of the servicesactivities; and

(ii) The respective client and firm responsibilities.

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

(b) Provides oversight of the servicesactivities and evaluates the adequacy of the results of the serviceactivity performed for the client's purpose; and

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

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

900.13-14 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:

(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

**R900.1415** 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.

900.1415 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

## Related Entities

**R900.1516** 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.

**[Paragraphs 900.1617 to 900.29 are intentionally left blank]**

## Period During which Independence is Required

...

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

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer review the assurance and/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:

- (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 the party engaging the firm or those charged with governance of the assurance client.

## Communication with Those Charged With Governance

900.34 A1 Paragraphs R300.9 to 300.9 A2 set out requirements and application material that is relevant to communications with a party engaging the firm or those charged with governance of the assurance client.

900.34 A2 Communication with a party engaging the firm or those charged with governance of the assurance client 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.

**[Paragraphs 900.3435 to 900.39 are intentionally left blank]**

...

[Other paragraphs of extant Section 900 remain unchanged.]

## SECTION 905

### FEES

#### Introduction

905.1 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.

905.2 ~~The nature and level of fees~~ or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to assurance clients in such circumstances.

#### Requirements and Application Material

##### Fees Paid by an Assurance Client

905.3 A1 When fees are negotiated with and paid by an assurance client, this creates a self-interest threat and might create an intimidation threat to independence.

905.3 A2 The application of the conceptual framework requires that before a firm accepts an assurance engagement for an assurance client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period.

905.3 A3 Factors that are relevant in evaluating the level of threats created when fees are paid by the assurance client include:

- The level of the fees for the assurance engagement and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The significance of the client to the firm or partner.
- The nature of the client.
- The nature of the assurance engagement.
- The involvement of those charged with governance in agreeing fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.

905.3 A4 The conditions, policies and procedures described in paragraphs 120.15 A3 (particularly the existence of a quality management system designed and implemented by a firm in accordance with quality management standards issued by the IAASB) might also impact the evaluation of whether the threats to independence are at an acceptable level.

905.3 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

## Level of Fees for Assurance Engagements

905.4 A1 Determining the fees to be charged to an assurance client, whether for assurance or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards.

905.4 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the fee for an assurance engagement when paid by the assurance client include:

- The firm's commercial rationale for the fee for the assurance engagement.
- Whether undue pressure has been, or is being, applied by the client to reduce the fee for the assurance engagement.

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

- Having an appropriate reviewer who does not take part in the assurance engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

## **Contingent Fees**

905.6-5 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

**R905.76** A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

**R905.87** A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgement related to a matter that is material to the subject matter information of the assurance engagement.

905.9-7 A1 Paragraphs R905.7-6 and R905.8-7 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, it might still impact the level of the self-interest threat ~~a self-interest threat might still be created.~~

905.9-7 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.9-7 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-

assurance service review the relevant assurance work.

- Obtaining an advance written agreement with the client on the basis of remuneration.

### **Total Fees—Overdue Fees**

**905.4-8 A1** ~~The level of the self-interest threat might be impacted if fees payable by the assurance client for the assurance engagement or other services are overdue during the period of the assurance engagement. A self-interest threat might be created if a significant part of fees is not paid before the assurance report, if any, for the following period is issued.~~

**905.8 A2** ~~It is generally expected that the firm will ~~require-obtain~~ payment of such fees before ~~any such~~the assurance report is issued. The requirements and application material set out in Section 911 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.~~

**905.8 A3** ~~Factors that are relevant in evaluating the level of such a self-interest threat include:~~

- ~~The significance of the overdue fees to the firm.~~
- ~~The length of time the fees have been overdue.~~
- ~~The firm's assessment of the ability and willingness of the client or other relevant party to pay the overdue fee.~~

**905.4-8 A2A4** Examples of actions that might be safeguards to address such a ~~self-interest~~ threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

**R905.59** When a significant part of ~~the~~ fees due from an assurance client remains unpaid for a long time, the firm shall determine:

- (a) ~~Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 911 are applicable;~~ and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement.

### **Total Fees—Fee Dependency Fees—Relative Size**

**905.3-10 A1** ~~When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on, ~~that client~~ and concern about ~~the potential loss, of fees from that client impact the level of the losing the client create~~ a self-interest ~~threat and create an~~ intimidation threat.~~

**905.10 A2** ~~A self-interest and intimidation threat is created in the circumstances described in paragraph 905.10 A1 even if the assurance client is not responsible for negotiating or paying the fees for the assurance engagement.~~

**905.10 A3** ~~In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.~~

**905.3-10 A2A4** Factors that are relevant in evaluating the level of such ~~self-interest and intimidation~~ threats include:

- The operating structure of the firm.

- ~~Where the firm is expected to diversify such that any dependence on the assurance client is reduced. Whether the firm is well established or new.~~
- ~~The significance of the client qualitatively and/or quantitatively to the firm.~~

905.3-10 A3A5 ~~An e~~Examples of ~~an~~actions that might be ~~a~~safeguards to address such threats include:~~a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the assurance client.~~

- Reducing the extent of services other than assurance engagements provided to the client.
- Increasing the client base of the firm to reduce dependence on the assurance client.

905.3-10 A4A6 A self-interest or intimidation threat is ~~also~~created when the fees generated by ~~the a~~ firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.

905.10 A7 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the assurance client to the partner.
- The extent to which the compensation of the partner is dependent upon the fees generated from the client.

905.3-10 A5A8 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:

- ~~Increasing the client base of the partner to reduce dependence on the assurance client.~~
- Having an appropriate reviewer who was not an assurance team member review the work.
- Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the assurance client.
- Increasing the client base of the partner to reduce dependence on the assurance client.

## SECTION 950

### PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE 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. ~~This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.~~

#### ~~Requirements and Application Material~~

##### ~~General~~

~~**R950.3** Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall determine whether providing such a service might create a threat to independence.~~

~~950.3-A1 This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing in such circumstances.~~

~~The requirements and application material in this section assist firms in analysing certain types of non-assurance services and the related threats that might be created when a firm accepts or provides non-assurance services to an assurance clients.~~

~~950.3-A2<sub>4</sub> New business practices, the evolution of financial markets and changes in information technology are among the some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms might be provided to an assurance client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material. As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to an assurance client.~~

#### Requirements and Application Material

##### General

##### Risk of Assuming Management Responsibilities When Providing a Non-Assurance Service

~~950.5 A1 When a firm provides a non-assurance service to an assurance client, there is a risk that a firm will assume a management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement unless the firm is satisfied that the requirements in paragraphs R900.13 and R900.14 have been complied with.~~

##### Accepting an Engagement to Provide a Non-Assurance Service

~~**R950.6** 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.~~

##### Identifying and Evaluating Threats

~~950.7 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 paragraph 120.6 A3.~~

## Evaluating Threats

950.4-7 A21 Factors that are relevant in identifying and evaluating the level of different threats that might be created by providing a non-assurance service to an assurance client include:

- The nature, scope, intended use and purpose of the service.
- ~~The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.~~ The manner in which the service will be provided, such as the personnel to be involved and their location.
- 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 of to which the assurance client's ~~involvement in~~ determines significant matters of judgement (Ref: Para. R900.13 to R900.14).
- ~~The level of expertise of the client's management and employees with respect to the type of service provided.~~ The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
- The fee relating to the provision of the non-assurance service.

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

950.4-8 A12 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an assurance client. The concept of materiality in relation to an assurance client's subject matter information is addressed in *SSAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

## Multiple Non-assurance Services Provided to the Same Assurance Client

950.94 A13 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.

## ~~Other Considerations Related to Providing Specific Non-Assurance Services~~ Self-Review Threats

950.810 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:

- (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

950.11 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:

- (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 forms part of the reasonable and informed third party test applied when determining whether to provide a non-assurance service to an assurance client.

950.11 A2 If a self-review threat exists in relation to an engagement undertaken in the circumstances described in paragraph 950.11 A1 (b), the firm is encouraged to disclose the existence of that self-review threat and the steps taken to address it to the party engaging the firm or those charged with governance of the assurance client and to the entity or organization established by law or regulation to oversee the operation of a business sector or activity to which the results of the engagement will be provided.

*Addressing Threats*

~~950.5-12 A1 Paragraphs 120.10 to 120.10 A2 includes a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards. In relation to providing non-assurance services to assurance clients, safeguards are actions, individually or in combination, that the firm takes that effectively reduce threats to independence to an acceptable level. In some situations, when a threat is created by providing a service to an assurance client, safeguards might not be available. In such situations, the application of the conceptual framework set out in Section 120 requires the firm to decline or end the non-assurance service or the assurance engagement.~~

950.12 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.

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

- 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.

950.12 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:

- (a) Adjust the scope of the proposed service to eliminate 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.

### ~~Prohibition on Assuming Management Responsibilities~~

~~**R950.6** 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.~~

~~950.6 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.~~

~~950.6 A2 Providing a non-assurance service to an assurance client creates self-review and self-interest threats if the firm assumes a management responsibility when performing the service. In relation to providing a service related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm, assuming a management responsibility also creates a familiarity threat and might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.~~

~~950.6 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:~~

- ~~• 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.~~
- ~~• Authorising 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.~~

~~950.6 A4 Providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility. (Ref: Paras. R950.6 to 950.6 A3).~~

~~**R950.7** To avoid assuming a management responsibility when providing non-assurance services to an assurance client that are 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 judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:~~

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

- ~~(i) The objectives, nature and results of the services; and~~

~~(ii) The respective client and firm responsibilities.~~

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

~~(b) Provides oversight of the services and evaluates the adequacy of the results of the service performed for the client's purpose; and~~

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

~~*Other Considerations Related to Providing Specific Non-Assurance Services*~~

~~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:~~

~~(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.~~

...

[Other paragraphs of extant Section 950 remain unchanged.]

## GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

In the *Code of Professional Conduct and Ethics*, the singular shall be construed as including the plural as well as the reverse, and the terms below have the following meanings assigned to them.

In this Glossary, explanations of defined terms are shown in regular font; italics are used for explanations of described terms which have a specific meaning in certain parts of the Code or for additional explanations of defined terms. References are also provided to terms described in the Code.

<u>Audit-related services</u>	<u>Audit-related services are non-audit services where the work involved is (i) closely related to the work performed in the audit engagement; and (ii) usually carried out by members of the audit engagement team who are required to comply with the independence requirements. Audit-related services include reporting required by law or regulation to be provided by an audit team.</u>
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[Other defined/described terms and abbreviations used in the extant "Glossary, including Lists of Abbreviations" remain unchanged.]

## PERMISSION FOR REPRODUCTION

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