

## Exposure Draft

May 2014

*Comments Due: August 18, 2014*

*International Ethics Standards Board for  
Accountants*

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# Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients

**IESBA**

International  
Ethics Standards  
Board for Accountants™

This Exposure Draft was developed and approved by the International Ethics Standards Board for Accountants (IESBA).

The IESBA is an independent standard-setting board that develops and issues high-quality ethical standards and other pronouncements for professional accountants worldwide. Through its activities, the IESBA develops the *Code of Ethics for Professional Accountants*, which establishes ethical requirements for professional accountants.

The objective of the IESBA is to serve the public interest by setting high-quality ethical standards for professional accountants and by facilitating the convergence of international and national ethical standards, including auditor independence requirements, through the development of a robust, internationally appropriate code of ethics.

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

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## REQUEST FOR COMMENTS

This Exposure Draft, *Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients*, was developed and approved by the International Ethics Standards Board for Accountants (IESBA).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by August 18, 2014.**

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

This publication may be downloaded from the IESBA website: [www.ethicsboard.org](http://www.ethicsboard.org). The approved text is published in the English language.

# EXPLANATORY MEMORANDUM

## Introduction

This memorandum provides background for, and an explanation of, the proposed changes to the International Ethics Standards Board for Accountants (IESBA) *Code of Ethics for Professional Accountants* (the Code) intended to clarify and strengthen the non-assurance services provisions concerning:

- Management responsibilities;
- The phrase “routine or mechanical” as it pertains to the provision of accounting and bookkeeping services; and
- The “emergency exception” provisions related to bookkeeping and taxation services.

The IESBA approved these proposed changes for exposure in April 2014.

The IESBA welcomes all comments on the proposed changes. In addition to general comments, the IESBA welcomes comments on the specific questions that are contained at the end of this memorandum.

## Background

In the case of audit engagements, it is in the public interest and required by the Code that members of audit teams, firms and network firms remain independent in mind and appearance of audit clients. This allows the auditor to act with integrity, and exercise objectivity and professional skepticism. In addition to the audit, firms have traditionally provided a range of non-assurance services to their audit clients that are consistent with their skills and expertise. The performance of such services may create threats to independence of the firm or members of the audit team. Such threats include self-review, self-interest and advocacy threats. Paragraphs 290.156 to 290.219 of the subsection *Provision of Non-assurance Services to an Audit Client* of the Code establish requirements for, and provide guidance to, professional accountants in public practice who perform non-assurance services for audit clients.<sup>1</sup>

In light of developments in the external environment, the IESBA added in May 2012 a new work stream to its work program to review the non-assurance services provisions in the Code to ensure that they continue to support a rigorous approach to independence for assurance services, particularly audits of financial statements. Prior to approving the project, the IESBA performed a benchmarking survey which sought to understand the extent to which G-20 countries and a select number of other jurisdictions are more restrictive in their national ethics requirements than the Code with respect to certain types of non-assurance services. The main results of the benchmarking exercise<sup>2</sup> indicated that the jurisdictions surveyed are in line with the Code for most of the Code’s provisions. While some specific provisions concerning non-assurance services in some of the jurisdictions did vary in their alignment with the Code, there was no evidence from the benchmarking exercise that the Code’s provisions would be considered an “outlier.” In light of this, the Board agreed that the Code’s provisions concerning non-assurance services are still robust in protecting the public interest.

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<sup>1</sup> Section 290, *Independence – Audit and Review Engagements*

<sup>2</sup> The analysis of the survey responses was presented at the June 2013 IESBA meeting: <http://www.ifac.org/sites/default/files/meetings/files/Agenda%20Item%205-A%20-%20Non%20Assurance%20Services%20-%20Issues%20Paper.pdf>.

The Board nevertheless did agree that varying views exist on what constitutes (a) a management responsibility, and (b) routine or mechanical bookkeeping services. Further, these two topics were included in the October 2011 recommendations of the IESBA Small- and Medium-Sized Entities (SME)/Small- and Medium-Sized Practices (SMP) Working Group in respect of which the IESBA was asked to consider providing enhanced guidance to professional accountants.<sup>3</sup> In light of these, the IESBA determined that it would be in the public interest to enhance the clarity of the guidance on these topics in the Code to promote consistency of application of the relevant provisions of the Code.

From the benchmarking exercise, the IESBA also noted that a significant number of jurisdictions do not have emergency provisions for bookkeeping or taxation services. Additionally, in its May 2013 response to the IESBA's 2014-2016 strategic review survey, the International Organization of Securities Commissions (IOSCO) had recommended that the Board consider removing the exemption under the Code for providing accounting and bookkeeping services and preparation of tax calculations in emergency or other unusual situations. Given these inputs, the IESBA agreed to reconsider the need for emergency provisions in the Code regarding those services with the aim of maintaining the robustness of the standards within the Code.

The IESBA therefore approved in September 2013 a project with the following objectives:

- To examine the “emergency exception” provisions related to bookkeeping and taxation services for appropriateness within the Code;
- To clarify the non-assurance services provisions in the Code concerning management responsibilities; and
- To clarify the phrase “routine or mechanical” as it pertains to the provision of accounting and bookkeeping services.

## **Significant Matters**

### **Emergency Exception**

The provisions in the Code concerning bookkeeping and taxation services currently include provisions that permit the auditor to perform certain services for audit clients that are public interest entities (PIEs) not normally permitted by the Code in the case of an emergency or other unusual situations when it is impractical for the audit client to make other arrangements and subject to specific safeguards being implemented (paragraphs 290.174 and 290.186).

The IESBA proposes to withdraw the emergency exception provisions related to bookkeeping and taxation services based on the following conclusions:

- A situation in which an emergency provision should be allowable should be so rare and extraordinary that it should not be addressed by the Code, nor should the determination to use the provision be made by the auditor and the client; and
- Removing the emergency provisions would strengthen the Code by removing the potential for misuse of the provisions due to subjective terms such as “emergency” and “unusual situations” included in the extant guidance.

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<sup>3</sup> The October 2011 report of the IESBA SME/SMP Working Group can be accessed at: [http://www.ifac.org/sites/default/files/meetings/files/20111011-%20IESBA-Agenda%20Paper-3-A%20-%20SME\\_SMP%20Report.pdf](http://www.ifac.org/sites/default/files/meetings/files/20111011-%20IESBA-Agenda%20Paper-3-A%20-%20SME_SMP%20Report.pdf). The Working Group was established to identify and advise the IESBA on the unique and challenging issues professional accountants in SMEs and SMPs face when complying with the Code.

Consistent with it being in the public interest to prohibit bookkeeping services and tax calculations for accounting purposes for PIE audit clients, the IESBA believes that it would also be in the public interest for there not to be an exception. The IESBA believes that should an exception be deemed to be necessary, paragraph 100.11 of the Code would permit consideration of the matter as it states that should a professional accountant encounter “unusual circumstances in which the application of a specific requirement of the Code would result in a disproportionate outcome or an outcome that may not be in the public interest, it is recommended that the professional accountant consult with a member body or the relevant regulator.” A regulator may determine whether it would be in the public interest for an auditor to perform certain non-assurance services prohibited by the Code in an emergency or in other unusual situations.

### **Management Responsibilities**

One of the overarching themes concerning independence in the performance of non-assurance services is that the auditor shall not assume a management responsibility. The Code states that client management must make the significant judgments and decisions pertaining to a service and must accept responsibility for the service. This principle applies to all non-assurance services.

The proposed changes to the management responsibilities provisions provide further guidance and clarification as to what constitutes a management responsibility (paragraphs 290.162-163). These changes better ensure that the auditor does not assume a management responsibility. Specifically, the proposal states that “the firm shall be satisfied that client management makes all judgments and decisions that are the responsibility of management. This includes ensuring that the client’s management:

- Designates an individual, preferably within senior management who possesses suitable skill, knowledge and experience to be responsible at all times for the client’s decisions and to oversee the services. A suitable individual should understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
- Provides oversight of the services and evaluates the adequacy of the results of the services performed for the client’s purpose; and
- Accepts responsibility for the actions to be taken arising from the results of the services.” (Paragraph 290.165)

The IESBA believes these changes will help to enhance auditor independence and further clarify expectations from the client’s management in relation to the performance of non-assurance services by an auditor.

The proposal contains other clarifications to the subsection “management responsibilities,” including additional examples of management responsibilities and the restructuring of certain sentences and paragraphs. The IESBA also proposes the deletion of certain terms and phrases from the extant guidance. In particular, the IESBA proposes that the term “significant” be deleted from paragraph 290.162 as it believes that all decisions regarding acquisition, deployment and control of human, financial, physical, technological and intangible resources are the responsibility of management. The first two sentences of the extant paragraph 290.162 are also proposed to be deleted to streamline the guidance. In addition, the IESBA proposes to delete the term “generally” from paragraph 290.163 as it believes that the examples provided in the proposed guidance are definite examples of management responsibilities.

## **Administrative Services**

The extant Code addresses the performance of activities that are routine and administrative by an audit firm for an audit client within the “management responsibilities” subsection of the Code. The IESBA believes that the Code would be clearer if the guidance addressing administrative services, which are an example of non-assurance services, were located in a separate subsection as opposed to being included in the guidance addressing management responsibilities. Within the relevant paragraph, the IESBA proposes clarifications regarding such routine and mechanical services (paragraph 290.166).

## **Preparing Accounting Records and Financial Statements**

The IESBA also proposes clarifications to the phrase “routine or mechanical” as used in the subsection “preparing accounting records and financial statements.” These clarifications include additional descriptive language further clarifying the meaning of the phrase “routine or mechanical.” The changes also include additional examples of activities that are considered to be “routine or mechanical” (paragraphs 290.167-171).

## **Section 291 of the Code**

The Board agreed to propose corresponding changes to Section 291<sup>4</sup> of the Code based on the proposed changes pertaining to Section 290 of the Code.

## **Project Timetable**

Subject to comments received on the Exposure Draft, the IESBA intends to finalize the changes to the Code in the first half of 2015.

## **Guide for Respondents**

The IESBA welcomes comments on all matters addressed in the Exposure Draft. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this Exposure Draft (especially those calling for change in current practice), it will be helpful for the IESBA to be made aware of this view.

## **Request for Specific Comments**

The IESBA would welcome views on the following questions:

### *Emergency Provisions*

1. Are there any situations that warrant retention of the emergency exceptions pertaining to bookkeeping and taxation services?

### *Management Responsibilities*

2. Does the change from “significant decisions” to “decisions” when referring to management responsibilities (paragraph 290.162) enhance the clarity of a management responsibility?
3. Are the examples of management responsibilities in paragraph 290.163 appropriate?

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<sup>4</sup> Section 291, *Independence – Other Assurance Engagements*

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4. Are there any challenges in understanding and applying the prerequisite set out in paragraph 290.165 for non-assurance services that should be considered?
5. Will the enhanced guidance assist engagement teams to better meet the requirement of not assuming a management responsibility?
6. Does the relocation of the guidance pertaining to administrative services into its own subsection provide greater clarity?

*Routine or Mechanical*

7. Does the proposed guidance on “routine or mechanical” clarify the term, or is additional guidance needed?
8. Is the meaning and identification of source documents sufficiently clear, taking into account documents that may be generated by software?

*Section 291*

9. Do the changes proposed to Section 291, specifically the additional requirements to proposed paragraph 291.146, enhance the clarity of a management responsibility?
10. Are the examples of management responsibilities in paragraph 291.144 appropriate?
11. Does the relocation of the guidance pertaining to administrative services provide greater clarity?

**Request for General Comments**

In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:

- (a) *SMPs*—The IESBA invites comments regarding the impact of the proposed changes for SMPs, especially the changes regarding management responsibilities.
- (b) *Preparers (including SMEs), and users (including regulators)*—The IESBA invites comments on the proposed changes from preparers (particularly with respect to the practical impacts of the proposed changes), and users.
- (c) *Developing Nations*—Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposed changes, in particular, on any foreseeable difficulties in applying them in a developing nation environment.
- (d) *Translations*—Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposed changes.
- (e) *Effective Date*—The IESBA proposes that the effective date for the changes will not be less than 12 months after issuance of the final changes. Earlier application would be permitted. The IESBA welcomes comment on whether this minimum period would be sufficient to support effective implementation of the changes.



## PROPOSED CHANGES TO SECTION 290 (MARK-UP VERSION)

### *Management Responsibilities*

290.162 ~~Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve~~ controlling, leading and directing an entity, including making ~~significant~~ decisions regarding the acquisition, deployment and control of human, financial, physical, technological and intangible resources.

290.163 ~~Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered a management responsibility include:~~

- Setting policies and strategic direction.;
- Hiring or terminating employees.;
- Directing, supervising or ~~and~~ taking responsibility for the actions of employees in relation to the entity's employees' work for the entity.;
- Authorizing transactions.;
- Supervising activities for the purpose of management oversight.;
- Control or management of 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 the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.; ~~and~~
- Taking responsibility for designing, implementing ~~and~~ or maintaining internal controls.

290.164 ~~Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorized by management or monitoring the dates for filing statutory returns and advising an audit client of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.~~

290.1645 ~~If a firm shall not~~ were to assume a management responsibility for an audit client, the ~~threats created would be so significant that no safeguards could reduce the threats to an acceptable level. For example, deciding which recommendations of the firm to implement will create self-review and self-interest threats. Further, assuming a management responsibility creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management. Therefore, the firm shall not assume a management responsibility for an audit client. Subject to compliance with paragraph 290.165, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.~~

~~290.1656 To avoid the risk of assuming a management responsibility w~~When providing non-assurance services to an audit client, the firm shall be satisfied that ~~a member of client management is responsible for making the significant~~ makes all judgments and decisions that are the proper responsibility of management. ~~This includes ensuring that the client's management:~~

- Designates an individual, preferably within senior management, who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. A suitable individual should understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
- Provides oversight of the services and evaluatesing the adequacy of the results of the services performed for the client's purpose; and;
- ~~and Acceptsing responsibility for the actions to be taken arising from the results of the services. This reduces the risk of the firm inadvertently making any significant judgments or decisions on behalf of management. The risk is further reduced when the firm gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues.~~

#### Administrative Services

290.166 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature. Examples of administrative services include preparing administrative or statutory forms for client approval, submitting such forms as instructed by the client, sending notices for client meetings, monitoring statutory filing dates, and advising an audit client of those dates. Providing such services does not generally create a threat to independence. However, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

#### *Preparing Accounting Records and Financial Statements*

##### *General Provisions*

290.167 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 within those policies. ~~Originating or changing journal entries, or determining the account classifications of transactions; and~~
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).
- Originating or changing journal entries, or determining or approving the account classifications of transactions.

290.168 Providing an audit client with accounting and bookkeeping services, such as preparing accounting records or financial statements, creates a self-review threat when the firm subsequently audits the financial statements.

290.169 The audit process, however, necessitates dialogue between the firm and management of the audit client, which may involve:

- The application of accounting standards or policies and financial statement disclosure requirements;
- The appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities; or
- Proposing adjusting journal entries;

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

290.170 Similarly, the client may request technical assistance from the firm on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client may request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another (for example, to comply with group accounting policies or to transition to a different financial reporting framework such as International Financial Reporting Standards). Such services do not, generally, create threats to independence provided the firm does not assume a management responsibility for the client.

Audit clients that are not public interest entities

290.171 The firm may provide services related to the preparation of accounting records and financial statements to an audit client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level. In addition, the firm shall be satisfied that the services would not result in assuming a management responsibility for the client and the requirements set forth in paragraph 290.165 are met. Services that are routine or mechanical in nature require little to no professional judgment from the professional accountant. Examples of such services include:

- Providing payroll services based on client-originated data.;
- Recording transactions of a routine nature such as a utility bill for which the client has determined or approved the appropriate account classification.;
- Recording a transaction involving a significant degree of subjectivity, for example the valuation of an asset when the client has determined the amount to be recorded.~~Posting transactions coded by the client to the general ledger;~~
- Calculating depreciation on fixed assets when the client provides the accounting policy and estimates of useful life and residual values.;
- Posting client-approved entries to the trial balance.;
~~and~~- Preparing financial statements based on information in the client-approved trial balance.

In all cases, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

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- Arranging for such services to be performed by an individual who is not a member of the audit team; or
- If such services are performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the work performed.

Audit clients that are public interest entities

290.172 ~~Except in emergency situations, a~~ firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements.

290.173 Despite paragraph 290.172, a firm may provide accounting and bookkeeping services, including payroll services and the preparation of financial statements or other financial information, 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 members of the audit team and:

- (a) 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
- (b) The services relate to matters that are collectively immaterial to the financial statements of the division or related entity.

~~Emergency Situations~~

290.174 ~~Accounting and bookkeeping services, which would otherwise not be permitted under this section, may be provided to audit clients in emergency or other unusual situations, when it is impractical for the audit client to make other arrangements. This may be the case when (a) only the firm has the resources and necessary knowledge of the client's systems and procedures to assist the client in the timely preparation of its accounting records and financial statements, and (b) a restriction on the firm's ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, the following conditions shall be met:~~

- ~~(a) Those who provide the services are not members of the audit team;~~
- ~~(b) The services are provided for only a short period of time and are not expected to recur; and~~
- ~~(c) The situation is discussed with those charged with governance.~~

*Taxation Services*

Audit clients that are public interest entities

290.185 ~~Except in emergency situations, i~~n the case of an audit client that is a public interest entity, a firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.

290.186 ~~The preparation of calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of the preparation of accounting entries, which would otherwise not be~~

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~~permitted under this section, may be provided to audit clients in emergency or other unusual situations when it is impractical for the audit client to make other arrangements. This may be the case when (a) only the firm has the resources and necessary knowledge of the client's business to assist the client in the timely preparation of its calculations of current and deferred tax liabilities (or assets), and (b) a restriction on the firm's ability to provide the services would result in significant difficulties for the client (for example, as might result from a failure to meet regulatory reporting requirements). In such situations, the following conditions shall be met:~~

- ~~(a) Those who provide the services are not members of the audit team;~~
- ~~(b) The services are provided for only a short period of time and are not expected to recur;  
and~~
- ~~(c) The situation is discussed with those charged with governance.~~

## PROPOSED CHANGES TO SECTION 291 (MARK-UP VERSION)

### Provision of Non-assurance Services to an Assurance Client

- 291.140 Firms have traditionally provided to their assurance clients a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the independence of the firm or members of the assurance team. The threats created are most often self-review, self-interest and advocacy threats.
- 291.141 When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.
- 291.142 Before the firm accepts an engagement to provide a non-assurance service to an assurance client, a determination shall be made as to whether providing such a service would create a threat to independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration shall be given to any threat that the assurance team has reason to believe is created by providing other related non-assurance services. If a threat is created that cannot be reduced to an acceptable level by the application of safeguards the non-assurance service shall not be provided.

### *Management Responsibilities*

- 291.143 ~~Management of an entity performs many activities in managing the entity in the best interests of stakeholders of the entity. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve~~ controlling, leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical, technological and intangible resources.
- 291.144 ~~Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would generally be considered a management responsibility include:~~
- ~~Setting policies and strategic direction.~~
  - Hiring or terminating employees.
  - ~~Directing, supervising or~~ and taking responsibility for the actions of employees in relation to the entity's employees' work for the entity.
  - ~~Authorizing transactions.~~
  - Supervising activities for the purpose of management oversight.
  - Control or management of bank accounts or investments.
  - ~~Deciding which recommendations of the firm or other third parties to implement.~~ and
  - Reporting to those charged with governance on behalf of management.
  - ~~Taking responsibility for designing, implementing and~~ maintaining internal controls.
- 291.145 ~~Activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility. For example, executing an insignificant transaction that has been authorized by management or monitoring the dates for filing statutory~~

~~returns and advising an assurance client of those dates is deemed not to be a management responsibility. Further, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.~~

291.1456 ~~Assuming a management responsibility for an assurance client may create threats to independence. If a firm were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. Accordingly, in providing assurance services to an assurance client, a firm shall not assume a management responsibility as part of the assurance service. If the firm were to~~ assumes a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. ~~any other services provided to the assurance client, it shall ensure that the responsibility is not related to the subject matter and subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other services provided to the assurance client, the firm shall ensure that the responsibility is not related to the subject matter and subject matter information of an assurance engagement provided by the firm.~~

291.1467 ~~To avoid the risk of assuming a management responsibility related to the subject matter or subject matter information of the assurance engagement, When providing services that are related to the subject matter and subject matter information of an assurance engagement provided by the firm, the firm shall be satisfied that a member of client management is responsible for~~ makes the significant all judgments and decisions relating to the subject matter or subject matter information of the assurance engagement that are the proper responsibility of management. This includes ensuring that the client's management:

- Designates an individual, preferably within senior management, who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. A suitable individual should understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
- Provides oversight of the services and, evaluates the adequacy of the results of the services performed for the client's purpose; and
- ~~and a~~ Accepts responsibility for the actions to be taken arising from the results of the services. This reduces the risk of the firm inadvertently making any significant judgments or decisions on behalf of management. This risk is further reduced when the firm gives the client the opportunity to make judgments and decisions based on an objective and transparent analysis and presentation of the issues.

#### *Other Considerations*

291.1478 Threats to independence may be created when a firm provides a non-assurance service related to the subject matter information of an assurance engagement. In such cases, an evaluation of the significance of the firm's involvement with the subject matter information of the engagement shall be made, and a determination shall be made of whether any self-review threats that are not at an acceptable level can be reduced to an acceptable level by the application of safeguards.

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291.1489 A self-review threat may be created if the firm is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement. For example, a self-review threat would be created if the firm developed and prepared prospective financial information and subsequently provided assurance on this information. Consequently, the firm shall evaluate the significance of any self-review threat created by the provision of such services and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.

291.14950 When a firm performs a valuation that forms part of the subject matter information of an assurance engagement, the firm shall evaluate the significance of any self-review threat and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.

291.150 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature. Examples of administrative services include preparing administrative or statutory forms for client approval, submitting such forms as instructed by the client, sending notices for client meetings, monitoring statutory filing dates, and advising an assurance client of those dates. Providing such services does not generally create a threat to independence. However, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.



**PROPOSED CHANGES TO SECTION 290  
(CLEAN VERSION)**

*Management Responsibilities*

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

290.163 Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or terminating employees.
- Directing, supervising or taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions.
- Supervising activities for the purpose of management oversight.
- Control or management of 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 the preparation and fair presentation of financial statements in accordance with the applicable financial reporting framework.
- Taking responsibility for designing, implementing or maintaining internal controls.

290.164 A firm shall not assume a management responsibility for an audit client. The threats created would be so significant that no safeguards could reduce the threats to an acceptable level. For example, deciding which recommendations of the firm to implement will create self-review and self-interest threats. Further, assuming a management responsibility creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management. Subject to compliance with paragraph 290.165, providing advice and recommendations to assist management in discharging its responsibilities is not assuming a management responsibility.

290.165 When providing non-assurance services to an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the responsibility of management. This includes ensuring that the client's management:

- Designates an individual, preferably within senior management, who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. A suitable individual should understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
- Provides oversight of the services and evaluates the adequacy of the results of the services performed for the client's purpose; and

- Accepts responsibility for the actions to be taken arising from the results of the services.

*Administrative Services*

290.166 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature. Examples of administrative services include preparing administrative or statutory forms for client approval, submitting such forms as instructed by the client, sending notices for client meetings, monitoring statutory filing dates, and advising an audit client of those dates. Providing such services does not generally create a threat to independence. However, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

*Preparing Accounting Records and Financial Statements*

*General Provisions*

290.167 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 within those policies.
- Preparing or changing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders).
- Originating or changing journal entries, or determining or approving the account classifications of transactions.

290.168 Providing an audit client with accounting and bookkeeping services, such as preparing accounting records or financial statements, creates a self-review threat when the firm subsequently audits the financial statements.

290.169 The audit process, however, necessitates dialogue between the firm and management of the audit client, which may involve:

- The application of accounting standards or policies and financial statement disclosure requirements;
- The appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities; or
- Proposing adjusting journal entries;

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

290.170 Similarly, the client may request technical assistance from the firm on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client may request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another (for example, to comply with group accounting policies or to transition to a different financial reporting framework such as International Financial Reporting Standards). Such services do

not, generally, create threats to independence provided the firm does not assume a management responsibility for the client.

Audit clients that are not public interest entities

290.171 The firm may provide services related to the preparation of accounting records and financial statements to an audit client that is not a public interest entity where the services are of a routine or mechanical nature, so long as any self-review threat created is reduced to an acceptable level. In addition, the firm shall be satisfied that the services would not result in assuming a management responsibility for the client and the requirements set forth in paragraph 290.165 are met. Services that are routine or mechanical in nature require little to no professional judgment from the professional accountant. Examples of such services include:

- Providing payroll services based on client-originated data.
- Recording transactions of a routine nature such as a utility bill for which the client has determined or approved the appropriate account classification.
- Recording a transaction involving a significant degree of subjectivity, for example the valuation of an asset when the client has determined the amount to be recorded.
- Calculating depreciation on fixed assets when the client provides the accounting policy and estimates of useful life and residual values.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance.

In all cases, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Arranging for such services to be performed by an individual who is not a member of the audit team; or
- If such services are performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the work performed.

Audit clients that are public interest entities

290.172 A firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services, including payroll services, or prepare financial statements on which the firm will express an opinion or financial information which forms the basis of the financial statements.

290.173 Despite paragraph 290.172, a firm may provide accounting and bookkeeping services, including payroll services and the preparation of financial statements or other financial information, 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 members of the audit team and:

- (a) 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

PROPOSED CHANGES TO CERTAIN NON-ASSURANCE SERVICES PROVISIONS

- (b) The services relate to matters that are collectively immaterial to the financial statements of the division or related entity.

*Taxation Services*

Audit clients that are public interest entities

290.185 In the case of an audit client that is a public interest entity, a firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.

## **PROPOSED CHANGES TO SECTION 291 (CLEAN VERSION)**

### **Provision of Non-assurance Services to an Assurance Client**

- 291.140 Firms have traditionally provided to their assurance clients a range of non-assurance services that are consistent with their skills and expertise. Providing non-assurance services may, however, create threats to the independence of the firm or members of the assurance team. The threats created are most often self-review, self-interest and advocacy threats.
- 291.141 When specific guidance on a particular non-assurance service is not included in this section, the conceptual framework shall be applied when evaluating the particular circumstances.
- 291.142 Before the firm accepts an engagement to provide a non-assurance service to an assurance client, a determination shall be made as to whether providing such a service would create a threat to independence. In evaluating the significance of any threat created by a particular non-assurance service, consideration shall be given to any threat that the assurance team has reason to believe is created by providing other related non-assurance services. If a threat is created that cannot be reduced to an acceptable level by the application of safeguards the non-assurance service shall not be provided.

### *Management Responsibilities*

- 291.143 Management responsibilities involve controlling, leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical, technological and intangible resources.
- 291.144 Examples of activities that would be considered a management responsibility include:
- Setting policies and strategic direction.
  - Hiring or terminating employees.
  - Directing, supervising or taking responsibility for the actions of employees in relation to the employees' work for the entity.
  - Authorizing transactions.
  - Supervising activities for the purpose of management oversight.
  - Control or management of 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 or maintaining internal controls.
- 291.145 In providing assurance services to an assurance client, a firm shall not assume a management responsibility as part of the assurance service. If the firm were to assume a management responsibility as part of the assurance service, the threats created would be so significant that no safeguards could reduce the threats to an acceptable level. If the firm assumes a management responsibility as part of any other services provided to the assurance client, the firm shall ensure that the responsibility is not related to the subject matter and subject matter information of an assurance engagement provided by the firm.

- 291.146 When providing services that are related to the subject matter and subject matter information of an assurance engagement provided by the firm, the firm shall be satisfied that client management makes all judgments and decisions relating to the subject matter or subject matter information of the assurance engagement that are the responsibility of management. This includes ensuring that the client's management:
- Designates an individual, preferably within senior management, who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the services. A suitable individual should understand the objectives, nature and results of the services and the respective client and firm responsibilities. However, the individual is not required to possess the expertise to perform or re-perform the services;
  - Provides oversight of the services and evaluates the adequacy of the results of the services performed for the client's purpose; and
  - Accepts responsibility for the actions to be taken arising from the results of the services.

*Other Considerations*

- 291.147 Threats to independence may be created when a firm provides a non-assurance service related to the subject matter information of an assurance engagement. In such cases, an evaluation of the significance of the firm's involvement with the subject matter information of the engagement shall be made, and a determination shall be made of whether any self-review threats that are not at an acceptable level can be reduced to an acceptable level by the application of safeguards.
- 291.148 A self-review threat may be created if the firm is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement. For example, a self-review threat would be created if the firm developed and prepared prospective financial information and subsequently provided assurance on this information. Consequently, the firm shall evaluate the significance of any self-review threat created by the provision of such services and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.
- 291.149 When a firm performs a valuation that forms part of the subject matter information of an assurance engagement, the firm shall evaluate the significance of any self-review threat and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.
- 291.150 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature. Examples of administrative services include preparing administrative or statutory forms for client approval, submitting such forms as instructed by the client, sending notices for client meetings, monitoring statutory filing dates, and advising an assurance client of those dates. Providing such services does not generally create a threat to independence. However, the significance of any threat created shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level.

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