PART 5 - SECTION 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT-SUSTAINABILITY ASSURANCE 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 sustainability assurance clients, consistent with their skills and expertise. Providing non-assurance services to audit sustainability assurance 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 sustainability assurance 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 sustainability assurance clients and indicate the types of threats that might be created as a result.

600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to an audit sustainability assurance client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.

600.5 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to an audit sustainability 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.

600.6 The requirements and application material in this section apply where a firm or a network firm:

(a) Uses technology to provide a non-assurance service to an audit sustainability assurance client; or

(b) Provides, sells, resells or licenses technology resulting in the provision of a non-assurance service by the firm or a network firm:

(i) To an audit sustainability assurance client; or

(ii) To an entity that provides services using such technology to audit sustainability assurance clients of the firm or network firm.
Requirements and Application Material

General

Non-Assurance Services Provisions in Laws or Regulations

600.76 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 sustainability assurance 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

600.87 A1 When a firm or a network firm provides a non-assurance service to an audit sustainability assurance 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 R400.21 have been complied with.

Accepting an Engagement to Provide a Non-Assurance Service

R600.98 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit sustainability 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

All Audit Sustainability Assurance Clients

600.109 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 sustainability assurance client is set out in paragraph 120.6 A3.

600.109 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit sustainability assurance client, and evaluating the level of such threats 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 client’s dependency on the service, including the frequency with which the service will be provided.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client’s management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgment. (Ref: Para. R400.20 to R400.21).
• Whether the outcome of the service will affect the accounting records underlying the sustainability information or matters reflected in the sustainability information financial statements on which the firm will express an opinion, and, if so:
  o The extent to which the outcome of the service will have a material effect on the financial statements sustainability information.
  o The degree of subjectivity involved in determining the appropriate amounts, disclosures or treatment for those matters reflected in the sustainability information financial statements.
• 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:
  o Accounting records or financial statements on which the firm will express an opinion. Records underlying the sustainability information or the sustainability information on which the firm will express an opinion.
  o Internal controls over financial reporting sustainability reporting.
• The degree of reliance that will be placed on the outcome of the service as part of the audit sustainability assurance engagement.
• The fee relating to the provision of the non-assurance service.

600.109 A3 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.

Materiality in relation to financial statements sustainability information

600.110 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an audit sustainability assurance client. Subsections 601 to 610 refer to materiality in relation to an audit sustainability assurance client’s financial statements sustainability information on which the firm will express an opinion. The concept of materiality in relation to an audit is addressed in ISA 320, Materiality in Planning and Performing an Audit, and in relation to a sustainability assurance engagement is addressed in International Standard on Sustainability Assurance (ISSA) 5000, General Requirements for Sustainability Assurance Engagements, review in ISRE 2400 (Revised), Engagements to Review Historical Financial Statements. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial sustainability information needs of users. The applicable reporting framework may include principles or guidance to assist the sustainability assurance client in identifying information that may be material to users. For example, some applicable reporting frameworks may explain that what is material to users includes consideration of impact materiality and financial materiality (e.g., double materiality).

Matters for Consideration

Reference to Materiality

This section in Part 5, equivalent to Section 600 in Part 4A, also provides factors to assist firms in identifying the different threats that might be created by providing a NAS to a sustainability assurance
client. One such factor is the consideration of whether the outcome of the service will have a material effect on the sustainability information.

The proposal explains that ISSA 5000 addresses the concept of materiality in the context of the sustainability assurance engagement. The proposal also refers to the fact that some reporting frameworks set out principles or guidance to assist the entity in identifying information that may be material to users. A framework could also require the entity to use a double materiality assessment involving two dimensions, impact materiality and financial materiality.

Do IESBA members agree with the proposed reference to materiality from Section 600 to ISSA 5000?

600.1149 A2 Where the Code expressly prohibits the provision of a non-assurance service to an audit sustainability assurance 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 sustainability information on which the firm will express an opinion.

Providing advice and recommendations

600.1241 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 R600.154. Where the audit sustainability assurance 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 sustainability assurance client is a public interest entity, paragraphs R600.176 and R600.187 apply.

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

R600.132 When a firm or a network firm provides multiple non-assurance services to an audit sustainability assurance client, and the sustainability assurance practitioner is not the auditor, 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.

600.132 A1 In addition to paragraph 600.109 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 sustainability assurance 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 sustainability assurance client.

600.13 A2 When the sustainability assurance practitioner is also the auditor, paragraphs R600.13 and 600.13 A1 in Part 4A apply in relation to multiple non-assurance services provided to the same client.

Self-review threats

600.143 A1 When a firm or a network firm provides a non-assurance service to an audit sustainability assurance client, there might be a risk of the firm auditing-assuring 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 sustainability assurance team will rely when forming a
judgment as part of an audit sustainability assurance engagement.

R600.154 Before providing a non-assurance service to an audit sustainability assurance 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 underlying the sustainability information, the internal controls over sustainability reporting financial reporting, or the sustainability information financial statements on which the firm will express an opinion; and

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

Audit Sustainability Assurance Clients that are Public Interest Entities

600.165 A1 When the audit sustainability assurance 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 sustainability assurance client that is a public interest entity.

600.165 A2 Where the provision of a non-assurance service to an audit sustainability assurance 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

R600.176 A firm or a network firm shall not provide a non-assurance service to an audit sustainability assurance 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 performance of assurance work on the sustainability information on which the firm will express an opinion. (Ref: Para. 600.143 A1 and R600.154).

Providing advice and recommendations

R600.187 As an exception to paragraph R600.176, a firm or a network firm may provide advice and recommendations to an audit sustainability assurance client that is a public interest entity in relation to information or matters arising in the course of an audit sustainability assurance engagement provided that the firm:

(a) Does not assume a management responsibility (Ref: Para. R400.20 and R400.21); 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.

600.187A1 Examples of advice and recommendations that might be provided in relation to information or matters arising in the course of an sustainability assurance engagement include:

- Advising on sustainability accounting and financial reporting standards or policies and sustainability information financial statement disclosure requirements.
• Advising on the appropriateness of sustainability information financial and accounting control and the methods used in determining the sustainability information reported stated amounts in the financial statements and related disclosures.

• Proposing adjusting journal-entries arising from the sustainability assurance engagement audit-findings.

• Discussing findings on internal controls over sustainability financial reporting and processes and recommending improvements.

• Discussing how to resolve account reconciliation problems.

• Advising on compliance with group sustainability reporting accounting policies.

**Addressing Threats**

**All Audit Sustainability Assurance Clients**

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

600.198 A2 Threats to independence created by providing a non-assurance service or multiple services to an audit sustainability assurance client vary depending on the facts and circumstances of the audit sustainability 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.

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

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

600.198 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to an audit sustainability assurance 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 sustainability assurance engagement.

**Communication with Those Charged With Governance Regarding Non-Assurance Services**

**All Audit Sustainability Assurance Clients**

600.2049 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.
600.210 A1 Paragraphs R600.224 to R600.243 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 assures the sustainability information of that public interest entity.

600.210 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.

R600.224 Before a firm that audits the financial statements assures the sustainability information 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 in providing the sustainability assurance service to 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.

600.224 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.

R600.232 A firm or a network firm shall not provide a non-assurance service to any of the entities referred to in paragraph R600.221 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 in providing the sustainability assurance service to 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.

R600.243 As an exception to paragraphs R600.221 and R600.232, 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).

R600.254 The firm or the network firm, having taken into account any matters raised by those charged with governance of the audit-sustainability assurance client that is a public interest entity or by the entity referred to in paragraph R600.224 that is the recipient of the proposed service, shall decline the non-assurance service or the firm shall end the audit-sustainability assurance engagement if:

(a) The firm or the network firm is not permitted to provide any information to those
charged with governance of the audit sustainability assurance 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 sustainability assurance 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.

Audit Sustainability Assurance Client that Later Becomes a Public Interest Entity

R600.265 A non-assurance service provided, either currently or previously, by a firm or a network firm to an audit sustainability assurance 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 sustainability assurance clients that are not public interest entities;

(b) Non-assurance services currently in progress that are not permitted under this section for audit sustainability assurance 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 not at an acceptable level.

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

- Review or re-perform the affected audit sustainability assurance 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

R600.276 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit sustainability assurance clients. As an exception to those requirements and the requirement in paragraph R400.15, 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 sustainability information 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 sustainability information the firm will express an opinion;

(iii) The services do not create a self-review threat; and

(iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

Documentation

600.287 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 sustainability information 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 sustainability assurance client, including whether the results of the service will be subject to audit sustainability assurance 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 R600.224, the steps taken to comply with paragraphs R600.224 to R600.243.