

**Non-Assurance Services – Project Update****Background**

1. At its December 2012 meeting, the IESBA considered a project proposal to review the non-assurance services provisions in Sections 290<sup>1</sup> and 291<sup>2</sup> of the Code to ensure that they continue to support a rigorous approach to independence for assurance services, particularly audits of financial statements.
2. While IESBA members generally agreed to the objective of the project, a number of concerns were expressed regarding its proposed scope. It was noted in particular that the scope appeared quite extensive and seemed to suggest a reconsideration of all non-assurance services, a broader scope than the Independence I project, which was a significant project in itself. Amongst other matters, it was suggested that the Task Force should, instead, carefully assess, through consideration of benchmarking, whether there are specific areas that may need to be revised, and then focus on whether any specific requirements or guidance may be necessary.

**Task Force Approach to Information Gathering***Open Survey*

3. Rather than carrying out a full benchmarking exercise, which would be resource intensive and time-consuming, the Task Force agreed that a more effective approach to gathering relevant scoping information would be to carry out an open survey regarding national provisions that go further than those in the Code. The main interest would be in finding out about those national provisions that cover non-assurance services not already addressed in the Code, prohibit services that the Code currently permits or restricts, or restrict services that the Code currently does not restrict.
4. In addition to finding out about areas not addressed by the Code, the Task Force agreed to focus the survey on the following five key areas of non-assurance services covered by the Code, the first three of which were already highlighted in the project proposal:
  - Assuming management responsibility
  - Preparing accounting records and financial statements
  - Valuation services
  - Taxation services
  - Internal audit services
5. The Task Force felt it also important to include coverage of taxation services given the great diversity of practice around the world, and internal audit services given regulatory concerns in this area.
6. At this information gathering stage, the Task Force agreed that the survey should not be limited to public interest entities (PIEs) but should cover non-PIEs as well.

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

<sup>2</sup> Section 291, *Independence – Other Assurance Engagements*

7. In developing the survey questions, the Task Force agreed that it would be important to know not only about the nature of the specific national provisions where the national requirements have gone further, but also about the rationale underpinning the national position.
8. To enable the Board to better consider the implications of international developments, the Task Force also agreed that the survey should be forward-looking and gather information about any national initiatives being contemplated or that are in progress to revise or introduce new ethical requirements with respect to non-assurance services.
9. Finally, the Task Force agreed that it would be useful to include specific questions in the areas of materiality, exception provisions, and the involvement of those charged with governance in order to better understand the way in which the national restrictions are applied.
10. For information, a copy of the survey is included in the Appendix.

#### *Jurisdictions Covered*

11. The Task Force agreed that it would be important for the survey to achieve a broader geographical coverage than the 2011 benchmarking exercise, which covered a relatively small subset of jurisdictions.<sup>3</sup> Accordingly, the Task Force agreed that the survey should cover the G-20<sup>4</sup> plus a small number of additional jurisdictions (the Netherlands, Norway, Israel, Morocco, and Tunisia) where the Task Force understands there have been recent developments or that have particularly large proportions of small- and medium-sized entities (SMEs)/small and medium practices (SMPs).
12. With respect to execution, the Task Force agreed to leverage contacts within the IESBA-National Standard Setters (NSS) liaison group for completion of the survey. For jurisdictions not included in NSS liaison group, the Task Force will be approaching IESBA members and Technical Advisors from the large network firms for assistance in distributing the survey to relevant contacts in their networks.

#### *Timing*

13. The Task Force is aiming to gather the information from the survey by mid-April 2013. Subject to the survey outcome, the Task Force anticipates presenting a proposal on the scope of the project at the June 2013 IESBA meeting.

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<sup>3</sup> The 2011 benchmarking exercise covered Australia, Brazil, France, Germany, Hong Kong, Japan, UK (APB) and USA (SEC/PCAOB)

<sup>4</sup> To include the EU (in this regard, the Task Force will consider the February 2013 Fédération des Experts Comptables Européens (FEE) study comparing auditor independence provisions in the EU Statutory Audit Directive with the independence provisions in the Code.)

**Request for Input on IESBA Non-Assurance Services Project**

Notes

- Individual responses to this questionnaire will not be on public record. They will be summarized for discussion purposes only.
- The scope of this survey encompasses both public interest entities (PIEs) and non-PIEs. Where applicable, please address both categories of entities in your responses.

**PLEASE RESPOND TO KARLENE MULRAINE, TECHNICAL MANAGER,  
(KARLENEMULRAINE@ETHICSBOARD.ORG)**

**BY 15 APRIL 2013**

**Jurisdiction:** \_\_\_\_\_

**Part I – General**

**A. Extent of Adoption of the *IESBA Code of Ethics for Professional Accountants (the Code)*<sup>5</sup>**

1. Has your jurisdiction adopted the Code? If not, please indicate in broad terms the extent to which your national ethical requirements are based on, or converged with, the Code.

**Response:**

**B. Benchmarking**

2. Has a benchmarking exercise been undertaken in your jurisdiction comparing the national ethical requirements with those of the Code? If yes, please provide details and, if possible, a copy of the benchmarking results.

**Response:**

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<sup>5</sup> Extant Code as of 1 January 2013

**C. Definition of Public Interest Entity**

3. The Code defines a public interest entity as:

(a) A listed entity; and

(b) An entity:

(i) Defined by regulation or legislation as a public interest entity; or

(ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation may be promulgated by any relevant regulator, including an audit regulator.

4. Do your national ethical requirements define the concept of a PIE in a way that differs from the definition in the Code? If yes, please provide details. In addition, if guidelines or interpretations have been issued in your jurisdiction to facilitate understanding or application of the concept, please provide details.

**Response:**

## Part II – Comparative Analysis of the Code vs. National Requirements in Select Areas

### A. Assuming Management Responsibility

5. The Code contains prohibitions with respect to a firm assuming “management responsibility” for an audit client. The relevant provisions are set out in Appendix 1.
6. In relation to this area, are your national ethical requirements more restrictive than the Code? If so, please provide details and, if possible, the rationale for the more stringent national requirements.

**Response:**

7. Paragraph 290.166 of the Code indicates that the risk of assuming a management responsibility when providing non-assurance services to an audit client 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 (this is sometimes referred to as the concept of “informed management”). Do your national requirements establish a similar provision? If so, in which specific circumstances does the provision apply?

**Response:**

### B. Preparing Accounting Records and Financial Statements

8. The Code contains prohibitions with respect to a firm providing accounting and bookkeeping services to an audit client. The relevant provisions in the Code are set out in Appendix 2.
9. In relation to this area, are your national ethical requirements more restrictive than the Code? If so, please provide details and, if possible, the rationale for the more stringent national requirements?

**Response:**

### C. Valuation Services

10. The Code contains prohibitions with respect to a firm providing valuation services to an audit client. The relevant provisions in the Code are set out in Appendix 3.

11. In relation to this area, are your national ethical requirements more restrictive than the Code? If so, please provide details and, if possible, the rationale for the more stringent national requirements?

**Response:**

**D. Taxation Services**

12. The Code contains prohibitions with respect to a firm providing taxation services to an audit client. The relevant provisions in the Code are set out in Appendix 4.
13. In relation to this area, are your national ethical requirements more restrictive than the Code? If so, please provide details and, if possible, the rationale for the more stringent national requirements?

**Response:**

**E. Internal Audit Services**

14. The Code contains prohibitions with respect to a firm providing internal audit services to an audit client. The relevant provisions in the Code are set out in Appendix 5.
15. In relation to this area, are your national ethical requirements more restrictive than the Code? If so, please provide details and, if possible, the rationale for the more stringent national requirements.

**Response:**

### **Part III – Areas Addressed by the National Requirements But Not by the Code**

16. Appendix 6 summarizes other restrictions or prohibitions in the Code with respect to the provision of non-assurance services to an audit client. Are there areas not covered by the Code where restrictions or prohibitions have been imposed by the national ethical requirements? If so, please provide details and, if possible, the rationale for these national restrictions or prohibitions.

**Response:**

## **Part IV – National Initiatives**

17. Are there any national initiatives being contemplated or that are in progress to revise or introduce new ethical requirements for firms with respect to the provision of non-assurance services to audit clients? If so, please provide details, including the intended objectives.

**Response:**

## Part V – Other Matters

### A. Materiality

18. A number of the Code's provisions with respect to non-assurance services are applicable subject to materiality. For example, paragraph 290.185 of the Code states that except in emergency situations, 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.
19. Do your national ethical requirements provide for restrictions or prohibitions with respect to the provision of non-assurance services to be subject to materiality? If so, please provide details. Also, to the extent possible, please provide the rationale for the position taken.

**Response:**

### B. Exceptions

20. The Code provides a number of exceptions with respect to the provision of non-assurance services. For example, paragraph 290.172 states that 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.
21. Do your national ethical requirements provide for exceptions in relation to the provision of non-assurance services? If so, please provide details. Also, to the extent possible, please provide the rationale for the position taken.

**Response:**

### C. Those Charged with Governance

22. Do your national ethical requirements address the involvement of those charged with governance (for example, pre-approval) with respect to the provision of non-assurance services by a firm to an audit client? If so, please provide details.

**Response:**

## Appendix 1

### 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 leading and directing an entity, including making significant decisions regarding the acquisition, deployment and control of human, financial, physical 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;
  - Directing and taking responsibility for the actions of the entity's employees;
  - Authorizing transactions;
  - Deciding which recommendations of the firm or other third parties to implement;
  - 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 maintaining internal control.
- 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.
- 290.165 If a firm 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.
- 290.166 To avoid the risk of assuming a management responsibility when providing non-assurance services to an audit client, the firm shall be satisfied that a member of management is responsible for making the significant judgments and decisions that are the proper responsibility of management, evaluating the results of the service and accepting responsibility for the actions to be taken arising from the results of the service. 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.

## Appendix 2

### 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:

- 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).

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.

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. Examples of such services include:

- Providing payroll services based on client-originated data;
- Recording transactions for which the client has determined or approved the appropriate account classification;

- Posting transactions coded by the client to the general ledger;
- Posting client-approved entries to the trial balance; and
- Preparing financial statements based on information in the 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 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.

## Appendix 3

### Valuation Services

#### *General Provisions*

290.175 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 a business as a whole.

290.176 Performing valuation services for an audit client may create a self-review threat. The existence and significance of any threat will depend on factors such as:

- Whether the valuation will have a material effect on the financial statements.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
- The availability of established methodologies and professional guidelines.
- For valuations involving standard or established methodologies, the degree of subjectivity inherent in the item.
- The reliability and extent of the underlying data.
- The degree of dependence on future events of a nature that could create significant volatility inherent in the amounts involved.
- The extent and clarity of the disclosures in the financial statements.

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:

- Having a professional who was not involved in providing the valuation service review the audit or valuation work performed; or
- Making arrangements so that personnel providing such services do not participate in the audit engagement.

290.177 Certain valuations do not involve a significant degree of subjectivity. This is likely the case where 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.

290.178 If a 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 effect on the financial statements, the provisions included in paragraph 290.191 apply.

#### *Audit clients that are not public interest entities*

290.179 In the case of an audit client that is not a public interest entity, if the valuation service has a material effect on the financial statements on which the firm will express an opinion and the

valuation involves a significant degree of subjectivity, no safeguards could reduce the self-review threat to an acceptable level. Accordingly a firm shall not provide such a valuation service to an audit client.

*Audit clients that are public interest entities*

290.180 A firm shall not provide valuation services to an audit client that is a public interest entity if the valuations would have a material effect, separately or in the aggregate, on the financial statements on which the firm will express an opinion.

## Appendix 4

### Taxation Services

290.181 Taxation services comprise a broad range of services, including:

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

While taxation services provided by a firm to an audit client are addressed separately under each of these broad headings; in practice, these activities are often interrelated.

290.182 Performing certain tax services creates self-review and advocacy threats. The existence and significance of any threats will depend on factors such as:

- The system by which the tax authorities assess and administer the tax in question and the role of the firm in that process;
- The complexity of the relevant tax regime and the degree of judgment necessary in applying it;
- The particular characteristics of the engagement; and
- The level of tax expertise of the client's employees.

#### *Tax Return Preparation*

290.183 Tax return preparation services involve assisting clients with their tax reporting obligations by drafting and completing information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities. Such services also include advising on the tax return treatment of past transactions and responding on behalf of the audit client to the tax authorities' requests for additional information and analysis (including providing explanations of and technical support for the approach being taken). Tax return preparation services are generally based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority deems appropriate. Accordingly, providing such services does not generally create a threat to independence if management takes responsibility for the returns including any significant judgments made.

#### *Tax Calculations for the Purpose of Preparing Accounting Entries*

Audit clients that are not public interest entities

290.184 Preparing 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 creates a self-review threat. The significance of the threat will depend on:

- (a) The complexity of the relevant tax law and regulation and the degree of judgment necessary in applying them;

- (b) The level of tax expertise of the client's personnel; and
- (c) The materiality of the amounts to the financial statements.

Safeguards shall be applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Using professionals who are not members of the audit team to perform the service;
- If the service is 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 tax calculations; or
- Obtaining advice on the service from an external tax professional.

Audit clients that are public interest entities

290.185 Except in emergency situations, 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.

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 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.

*Tax Planning and Other Tax Advisory Services*

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

290.188 A self-review threat may be created where the advice will affect matters to be reflected in the financial statements. The existence and significance of any threat will depend on factors such as:

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements;
- The extent to which the outcome of the tax advice will have a material effect on the financial statements;

- 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;
- The level of tax expertise of the client's employees;
- The extent to which the advice is supported by tax law or regulation, other precedent or established practice; and
- 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, providing tax planning and other tax advisory services where the advice is clearly supported by tax authority or other precedent, by established practice or has a basis in tax law that is likely to prevail does not generally create a threat to independence.

290.189 The significance of any threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Examples of such safeguards include:

- Using professionals who are not members of the audit team to perform the service;
- Having a tax professional, who was not involved in providing the tax service, advise the audit team on the service and review the financial statement treatment;
- Obtaining advice on the service from an external tax professional; or
- Obtaining pre-clearance or advice from the tax authorities.

290.190 Where the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

- (a) 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;

The self-review threat would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm shall not provide such tax advice to an audit client.

290.191 In providing tax services to an audit client, a firm may be requested to perform a valuation to assist the 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, the provisions included in paragraphs 290.175 to 290.180 relating to valuation services are applicable. Where the valuation is performed for tax purposes only and the result of the valuation 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 generally create threats to independence if such effect on the financial statements is immaterial or if the valuation is subject to external review by a tax authority or similar regulatory authority. If the valuation is not subject to such an external review and the effect is material to the financial statements, the existence and significance of any threat created will depend upon factors such as:

- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice and the degree of subjectivity inherent in the valuation.
- The reliability and extent of the underlying data.

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:

- Using professionals who are not members of the audit team to perform the service;
- Having a professional review the audit work or the result of the tax service; or
- Obtaining pre-clearance or advice from the tax authorities.

#### *Assistance in the Resolution of Tax Disputes*

290.192 An advocacy or self-review threat may be created when the firm represents an audit client in the resolution of a tax dispute once the tax authorities have notified the client that they have rejected the client's arguments on a particular issue and either the tax authority or the client is referring the matter for determination in a formal proceeding, for example before a tribunal or court. The existence and significance of any threat will depend on factors such as:

- Whether the firm has provided the advice which is the subject of the tax 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;
- 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; and
- The role management plays in the resolution of the dispute.

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:

- Using professionals who are not members of the audit team to perform the service;
- Having a tax professional, who was not involved in providing the tax service, advise the audit team on the services and review the financial statement treatment; or
- Obtaining advice on the service from an external tax professional.

290.193 Where the taxation services involve acting as an advocate for an audit client before a public tribunal or court in the resolution of a tax matter and the amounts involved are material to the financial statements on which the firm will express an opinion, the advocacy threat created would be so significant that no safeguards could eliminate or reduce the threat to an acceptable level. Therefore, the firm shall not perform this type of service for an audit client. What constitutes a "public tribunal or court" shall be determined according to how tax proceedings are heard in the particular jurisdiction.

290.194 The firm is not, however, precluded from having a continuing advisory role (for example, responding to specific requests for information, providing factual accounts or testimony about the work performed or assisting the client in analyzing the tax issues) for the audit client in relation to the matter that is being heard before a public tribunal or court.

## Appendix 5

### Internal Audit Services

#### *General Provisions*

290.195 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. Internal audit activities may include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements thereto;
- Examination of financial and operating information – reviewing the means used to identify, measure, classify and report financial and operating information, and specific inquiry into individual items including detailed testing of transactions, balances and procedures;
- Review of the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity; and
- Review of compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.

290.196 Internal audit services involve assisting the audit client in the performance of its internal audit activities. The provision of internal audit services to an audit client creates a self-review threat to independence if the firm uses the internal audit work in the course of a subsequent external audit. Performing a significant part of the client's internal audit activities increases the possibility that firm personnel providing internal audit services will assume a management responsibility. If the firm's personnel assume a management responsibility when providing internal audit services to an audit client, the threat created would be so significant that no safeguards could reduce the threat to an acceptable level. Accordingly, a firm's personnel shall not assume a management responsibility when providing internal audit services to an audit client.

290.197 Examples of internal audit services that involve assuming management responsibilities include:

- (a) Setting internal audit policies or the strategic direction of internal audit activities;
- (b) Directing and taking responsibility for the actions of the entity's internal audit employees;
- (c) Deciding which recommendations resulting from internal audit activities shall be implemented;
- (d) Reporting the results of the internal audit activities to those charged with governance on behalf of management;
- (e) Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges;
- (f) Taking responsibility for designing, implementing and maintaining internal control; and
- (g) Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm is responsible for determining the scope of the internal audit work and may have responsibility for one or more of the matters noted in (a)–(f).

290.198 To avoid assuming a management responsibility, the firm shall only provide internal audit services to an audit client if it is satisfied that:

- (a) The client designates an appropriate and competent resource, preferably within senior management, to be responsible at all times for internal audit activities and to acknowledge responsibility for designing, implementing, 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.

290.199 When a firm uses the work of an internal audit function, ISAs require the performance of procedures to evaluate the adequacy of that work. When a firm accepts an engagement to provide internal audit services to an audit client, and the results of those services will be used in conducting the external audit, a self-review threat is created because of the possibility that the audit team will use the results of the internal audit service without appropriately evaluating those results or exercising the same level of professional skepticism as would be exercised when the internal audit work is performed by individuals who are not members of the firm. The significance of the threat will depend on factors such as:

- The materiality of the related financial statement amounts;
- The risk of misstatement of the assertions related to those financial statement amounts; and
- The degree of reliance that will be placed on the internal audit service.

The significance of the threat shall be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. An example of such a safeguard is using professionals who are not members of the audit team to perform the internal audit service.

Audit clients that are public interest entities

290.200 In the case of an audit client that is a public interest entity, a firm shall not provide internal audit services that relate to:

- (a) A significant part of the internal controls over financial reporting;
- (b) Financial accounting systems that generate information that is, separately or in the aggregate, significant to the client's accounting records or financial statements on which the firm will express an opinion; or
- (c) Amounts or disclosures that are, separately or in the aggregate, material to the financial statements on which the firm will express an opinion.

## Appendix 6

### Designing or Implementing IT Systems

1. For audit clients that are public interest entities, the Code prohibits a firm from 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 the client's accounting records or financial statements.

### Litigation Support Services

2. The Code prohibits a firm from estimating damages or other amounts that would have a material effect on the financial statements.

### Legal Services

3. The Code prohibits a firm from acting in an advocacy role for the client in resolving a dispute or litigation, when the amounts involved are material to the financial statements, and a partner or employee of the firm accepting an appointment as General Counsel for an audit client.

### Recruitment Services – Acting as a Negotiator

4. The Code prohibits a firm from acting as a negotiator on the client's behalf, making the hiring decision for the client, or assuming any other management responsibilities.

### Recruitment Services – Other Services

5. The Code prohibits the provision of recruiting services to an audit client that is a public interest entity with respect to a director or officer of the entity or senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements:
  - (a) Searching for or seeking out candidates for such positions; and
  - (b) Undertaking reference checks of prospective candidates for such positions.

### Corporate Finance Services – Advice Depending on a Particular Accounting Treatment or Presentation

6. Under the Code, providing corporate finance advice is prohibited, where the effectiveness of the advice depends on a particular accounting treatment or presentation in the financial statements and:
  - (a) 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.

**Corporate Finance Services – Promoting, Dealing and Underwriting**

7. The Code prohibits a firm from providing corporate finance services involving promoting, dealing in, or underwriting the client's shares.