

PROPOSED POLICY POSITION PAPER**ETHICS CODE: ESTABLISHING GLOBAL STANDARDS****A Discussion of Non-Assurance Services for Audit Clients****Introduction**

1. This paper explains the position of the International Ethics Standards Board for Accountants (IESBA, the Ethics Board) on the independence requirements of the IESBA *Code of Ethics for Professional Accountants* (the Code) for audit engagements in relation to the provision of non-assurance services, and affirms their continued relevance.

Independence

2. Independence is a fundamental tenet of an audit of financial statements, and must be maintained when a firm also performs non-assurance services for an audit client. As stated in the Code, the firm must remain independent in mind and in appearance. Independence, of mind and appearance, demonstrates and reinforces compliance with the fundamental principles of integrity and objectivity. These fundamental principles serve the public interest. To achieve and maintain independence, the Code establishes specific standards that a firm must follow when providing non-assurance services to an audit client.
3. Independence allows the firm or a member of the audit team to evaluate audit evidence in an unbiased manner when also performing non-assurance services, and apply professional judgment effectively. Hence, the quality of the audit is increased when independence is maintained.

Mandate and Operation of the Board

4. The objective of the Ethics Board is to serve the public interest by setting high quality international ethics standards for professional accountants. The Ethics Board is comprised of practitioners and non-practitioners from around the world, with an independent chair and public members. Such geographic and professional diversity contributes to the setting of ethics standards that are fully considered and deliberated prior to adoption following a robust and transparent due process. The robust due process is facilitated and reinforced by the two following bodies:
 - The IESBA Consultative Advisory Group (CAG),¹ a global consultative group comprised of member organizations that are interested in the development and maintenance of high-quality international ethics standards for professional accountants, and designed to serve the public interest. Its membership includes regulators, international organizations, users and preparers, among others. The CAG provides advice on numerous areas of relevance to promote a deeper understanding by the Ethics Board of public needs and expectations.
 - The Public Interest Oversight Board (PIOB),² a global independent oversight board established through a collaborative effort by the International Federation of Accountants (IFAC) and the international financial regulatory community. The PIOB ensures that

¹ See <http://www.ifac.org/ethics/cag>.

² See <http://www.ipiob.org/>.

international ethics standards for the accountancy profession are set in a transparent manner and reflect the public interest.

5. Examples of the Ethics Board's transparent due process and commitment to serve the public interest include:
 - Board meetings that are open to the public with meeting materials and minutes posted to its website;
 - A member of the PIOB generally attends Board meetings, as does the chair of the CAG and observers from the international regulatory community;
 - Standards exposed to the public for comment before adoption;
 - Extensive outreach to regulators, standard setters, IFAC member bodies, members of the Forum of Firms (an association of international networks of accounting firms that perform transnational audits)³ and other stakeholders, including small- and medium-sized entities and practices; and
 - Consultations with the CAG.
6. Through the diversity of the Ethics Board and its rigorous due process, the independence provisions applicable to non-assurance services establish high ethics standards with global relevance and applicability. Non-assurance services provisions adopted by the Ethics Board are designed within the construct of the Code's conceptual framework.

Conceptual Framework and Non-Assurance Service Provisions

7. In relation to non-assurance services that may be provided to an audit client, the Code's conceptual framework requires professional accountants to identify, evaluate and address threats to compliance with independence. The performance of non-assurance services may create self-review, self-interest and advocacy threats and the Code therefore prohibits certain non-assurance services to an audit client.
8. Further, under the conceptual framework, the Code requires the professional accountant, when considering other non-assurance services, to identify any threats to independence and determine whether appropriate safeguards are available to eliminate the threats or reduce them to an acceptable level. If such safeguards are not available, the Code requires the professional accountant not to perform the non-assurance service or to terminate the audit engagement. In application of the framework, the Code also establishes specific mandatory safeguards or provides guidance on other relevant safeguards.
9. The conceptual framework is an effective method for maintaining independence. Any professional accountant in any jurisdiction can apply professional judgment, using the conceptual framework to preserve independence when an audit client requests assistance, even when the non-assurance service is not specifically addressed in the Code. The Code requires the professional accountant to take into account the perspective of a reasonable and informed third party when applying the conceptual framework.

³ See <http://www.ifac.org/about-ifac/forum-firms>.

Management Responsibility

10. The acceptance of a client management responsibility by an auditor is prohibited by the Code due to the significance of the threats. This prohibition applies to all non-assurance services, including emerging services that are relatively new to the profession and other services not addressed by the Code. It is the client that must make all significant judgments related to the non-assurance service along with evaluating the results of the service and accepting responsibility for the actions arising from the results of the service.

Non-Assurance Services Addressed in the Code

11. In addition to management responsibilities, the Code also addresses the following non-assurance services:
 - Preparing accounting records and financial statements;
 - Valuation services;
 - Taxation services;
 - Internal audit services;
 - IT systems services;
 - Litigation support services;
 - Legal services;
 - Recruiting services; and
 - Corporate finance services.
12. Non-assurance services are analyzed by identifying typical threats and potential or mandatory safeguards, with consideration of the application of the provisions addressing such services to public interest entities (PIEs) and other entities, as well as materiality and significance when relevant. The professional accountant is required to apply the conceptual framework taking into account the requirements and guidance related to these specific services.
13. For example, non-assurance services addressed under the subsection *Preparing Accounting Records and Financial Statements* create a self-review threat. The Ethics Board considers the significance of the self-review threat to be higher for PIEs because of the extent of public interest and the importance of independence in appearance to a broad stakeholder group. Therefore, the Code prohibits such services for PIEs other than in very limited circumstances.
14. However, for audit clients that are not PIEs, the auditor may provide such services only if of a routine or mechanical nature. With respect to assessing the significance of the threat, the Ethics Board determined that safeguards may be available to mitigate the threat. In addition, when the Ethics Board considered the public interest, it concluded that such entities usually have a more limited stakeholder group than PIEs and a greater need for access to accounting support.
15. The Ethics Board also determined that services of a routine or mechanical nature may also be provided to immaterial divisions or related entities of a PIE with additional mandatory safeguards, as such entities have no material impact on the economic decisions and judgments of the investing public.

16. The conceptual framework and rigorous approach described above applies to all non-assurance services. The Ethics Board considers the standards to be robust as evidenced by the fact that these standards have been accepted by the many countries that have adopted the same or equivalent conceptual frameworks, and by the Forum of Firms. However, the Ethics Board recognizes that standards may require update in the light of emerging global developments impacting the public interest.

Evolving Code

17. The Code continues to evolve. Current projects and other priorities identified in the Ethics Board's current strategy and work plan include:
- Responding to non-compliance with laws and regulations – The development of appropriate requirements and guidance for professional accountants regarding how to respond in situations where they encounter suspected non-compliance with laws and regulations.
 - Guidance regarding safeguards in the Code – A review of the safeguards in the Code from the perspectives of appropriateness and effectiveness, and consideration of whether changes should be made, including whether additional safeguards should be specified or whether existing safeguards should be removed;
 - Collective investment vehicles (CIVs) – A review of the application of the “related entity” definition in the Code to CIVs when firms audit the underlying funds, the sponsor/advisor of the funds, or both, and consideration of whether changes are needed or whether further guidance should be developed.