

**Safeguards Phase 2—Section 600/Non-assurance Services (NAS)****[Clean]****Section 600****Provision of Non-assurance Services to an Audit Client****Introduction**

- 600.1 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to independence in addition to threats that might be created to compliance with the fundamental principles. Reference to “threats” in this section means “threats to compliance with the fundamental principles” set out in Section 100, and “threats to independence”.
- 600.2 Section 120 requires professional accountants to apply the conceptual framework to comply with the fundamental principles and International Independence Standards. Section 600 sets out requirements and application material for firms in the application of the conceptual framework to independence when providing non-assurance services to audit clients. Also relevant are, Section 300 which describes considerations for the application of the conceptual framework, and Section 400 which addresses independence requirements for audit and review engagements, including the application of the conceptual framework to independence.  
**[Subject to further revision. See Agenda Item 2-A]**
- 600.3 Subsections 601 to 611 provides additional considerations for a firm or a network when accepting or providing certain types of non-assurance services to audit clients.

**Requirements and Application Material****General Provisions**

- R600.4** When accepting and providing a non-assurance service to an audit client, a firm or a network firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats.

*Identifying Threats Created by Accepting and Providing Non-Assurance Services to Audit Clients*

- 600.4 A1 New business practices, the evolution of financial markets and changes in information technology are amongst the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an audit client. As a result, this Code does not include an exhaustive listing of all non-assurance services that might be provided to an audit client.
- 600.4 A2 The requirements and application material in Section 600 assists firms analyze certain types of non-assurance services and the related threats created to determine whether the service is permissible, or whether certain actions can be taken to address such threats in accordance

with paragraph R120.8. Subsection 601–611 sets out examples of non-assurance services that in certain situations firms or network firms are either:

- Expressly prohibited to accept or provide to an audit client because there can be no safeguards to eliminate or reduce the associated threats created to an acceptable level; or
- Required to apply the relevant requirements and application material in Subsections 601–611 in applying the conceptual framework to identify, evaluate and address threats.

*Situations When There are No Safeguards*

600.4 A3 Within subsections 601–611 are examples of situations in which the application of the conceptual framework requires a firm or a network firm to:

- Eliminate the circumstances, including interest, or relationships that is creating the threat; or
- Decline or discontinue the specific professional activity or service involved

because there can be no safeguards to eliminate or reduce the threats created an acceptable level.

*Evaluating Threats Created by Accepting or Providing Non-Assurance Services to Audit Clients*

600.4 A4 Factors that are important to the firm's evaluation of the level of any threat created when accepting and providing a non-assurance service to an audit client include:

- The nature of the service, and the degree of reliance that will be placed on the outcome of that service as part of the audit.
- Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion, and if it will:
  - The extent to which the outcome of the service will have a material effect on the financial statements;
  - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements;
  - The extent of the audit client's involvement in determining and approving those matters where they involve significant professional judgment.
- The nature and extent of the impact of the service, if any, on the systems that generate information that form a significant part of the client's:
  - Accounting records or financial statements on which the firm will express an opinion; and
  - Internal controls over financial reporting.
- Whether the audit client is a public interest entity, which might increase the level of any threat created.

## Materiality in Relation to an Audit Client's Financial Statements

- 600.4 A5 Professional standards require that the audit engagement partner form conclusions on matters pertaining to compliance with independence requirements. This includes forming a conclusion about the materiality level or levels to be applied in order to determine the impact of the non-assurance service on the financial statements.<sup>1</sup>
- 600.4 A6 Reference is made in the International Independence Standards in C1 and C2 to materiality in relation to an audit client's financial statements. The concept of materiality is addressed in ISA 320, *Materiality in Planning and Performing an Audit*. The firm's determination of materiality involves the exercise of professional judgement. It is also affected by perceptions of the financial information needs of users.

## Considerations for When a Firm Provides Multiple Non-assurance Services to an Audit Client

- 600.4 A7 In evaluating threats created by accepting and providing an additional non-assurance service, the application of the conceptual framework requires that the firm also consider any threat that the audit team has reason to believe is created by accepting and providing other related non-assurance services.

## Considerations for When a Firm Provides Non-assurance Services to Related Entities of an Audit Client

- R600.5** As an exception to the provisions of Subsections 600 to 699 a firm may provide non-assurance services that would otherwise be restricted by Subsections 601 to 699 to the following related entities of the audit client:
- (a) An entity, which is not an audit client of the firm, that has direct or indirect control over the audit client;
  - (b) An entity, which is not an audit client of the firm, that has 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 not an audit client of the firm, that is under common control with the audit client,

if it is reasonable to conclude that: the services do not create a self-review threat because the results of the services will not be subject to audit procedures; and the firm, applies the conceptual framework to address any other threats created by accepting and providing the non-assurance service.

## Considerations for When a Firm Provides Non-assurance Services to an Audit Client that Later Becomes a Public Interest Entity

- R600.6** As an exception to Sections 601 to 699 if a firm provides a non-assurance service to an audit client that later becomes a public interest entity, the independence of the firm is not

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<sup>1</sup> See ISA 220, paragraph 11

compromised if:

- (a) The previous non-assurance service complies with the provisions of Sections 601 to 699 that relate to audit clients that are not public interest entities;
- (b) Services that are not permitted under Sections 601 to 699 for audit clients that are public interest entities are terminated before, or as soon as practicable after, the client becomes a public interest entity; and
- (c) The firm applies the conceptual framework to address any threats that are created.

## **Subsection 601 – Management Responsibilities**

### **Introduction**

- 601.1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.
- 601.2 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered a management responsibility include:
- Setting policies and strategic direction.
  - Hiring or dismissing employees.
  - Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
  - Authorizing transactions
  - Controlling or managing 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;
    - For designing, implementing, monitoring and maintaining internal control.

### **Requirements and Application Material**

- R601.3** A firm or a network firm shall not assume a management responsibility for an audit client.

#### *Identifying Threats*

- 601.3 A1 Accepting and providing a non-assurance service to an audit client creates self-review and self-interest threats if the firm assumes a management responsibility. Assuming a management responsibility also creates a familiarity threat because the firm becomes too closely aligned with the views and interests of management.

*Providing Advice and Recommendations to Assist the Management of an Audit Client*

601.3 A2 Subject to compliance with paragraph R601.3, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility.

**R601.4** To avoid the risk of assuming management responsibility when providing non-assurance services to an audit client, the firm or a network firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

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

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

(ii) The respective client and firm responsibilities.

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

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

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

## **Subsection 602 – Administrative Services**

### **Introduction**

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

602.2 Examples of administrative services include:

(a) Word processing services;

(b) Preparing administrative or statutory forms for client approval;

(c) Submitting such forms as instructed by the client;

(d) Monitoring statutory filing dates, and advising an audit client of those dates.

### **Application Material**

602.4 A1 Providing administrative services to an audit client do not generally create a threat to independence. However, application of the conceptual framework requires that the firm evaluate the level of any threat created and address such threat so that it is eliminated or reduced to an acceptable level (see paragraph R600.4).

## **Subsection 603 –Accounting and Bookkeeping Services, Including Preparing Accounting Records and Financial Statements**

### **Introduction**

- 603.1 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. Examples include:
    - Purchase orders;
    - Payroll time records; and
    - Customer orders.
  - Originating or changing journal entries, or determining the account classifications of transactions.
- 603.2 The audit process, however, necessitates dialogue between the firm and management of the audit client, which might involve:
- Applying accounting standards or policies and financial statement disclosure requirements;
  - Assessing the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities; or
  - Proposing adjusting journal entries.
- These activities are considered to be a normal part of the audit process and do not usually create so long as the client is responsible for making decisions in the preparation of accounting records and financial statements.
- 603.3 Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another. Examples include:
- Complying with group accounting policies: or
  - Transitioning to a different financial reporting framework such as International Financial Reporting Standards.
- Such services do not usually create provided the firm does not assume a management responsibility for the client.
- 603.4 Subsection 603 sets out requirements and application material on applying the conceptual framework set out in Section 120 when providing an audit client with accounting and bookkeeping services, such as preparing accounting records or financial statements.

## Requirements and Application Material

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

**R603.5** A firm or a network firm shall not accept or 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.

**R603.6** As an exception to paragraph R603.5, 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.

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

**R603.7** A firm or a network firm shall not accept or provide to an audit client that is not a public interest entity services related to 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 unless:

- (a) The services are of a routine or mechanical nature; and
- (b) The firm applies the conceptual framework to address any self-review threat created.

### *Routine or Mechanical Services*

603.7 A1 The firm may accept or provide non-assurance services related to the preparation to an audit client that is not a public interest entity where the services are of mechanical nature so as long as any self-review threat created is reduced to an acceptable level.

603.7 A2 Non-assurance services that are routine or mechanical in nature require little or no professional judgment from the professional accountant. Some examples of these services are:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client;
- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification;
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger;
- Posting client-approved entries to the trial balance; and

- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

#### Addressing Threats Created When Accepting or Providing Accounting and Bookkeeping Services

603.7 A3 Examples of actions that in certain circumstances might be safeguards in addressing the self-review threats created when accepting or providing accounting and bookkeeping services to an audit client that is not a public interest entity include:

- Using services professionals who are not:
  - Members of the audit team to perform the accounting and bookkeeping service; or
  - Members of the audit team to perform the service.
- Hiring an accounting and bookkeeping service professional external to the firm to review the service. **[Subject to further revision. See Agenda Item 3-C]**
- If such services are performed by an audit team member, using a partner or senior member of personnel with appropriate expertise who is not an audit team member to review the work performed.

### Subsection 604 – Valuation Services

#### Introduction

- 604.1 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.
- 604.2 Subsection 604 sets out requirements and application material on applying the conceptual framework set out in Section 120 when providing valuation services to an audit client.

#### Requirements and Application Material

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

- R604.3** A firm or a network firm shall not accept or provide valuation services to an audit client that is a public interest entity if the valuation services would have a material effect, separately or in the aggregate, on the financial statements on which the firm will express an opinion.

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

- R604.4** A firm or a network firm shall not accept or provide a valuation service to an audit client that is not a public interest entity if:
- (a) The valuation has a material effect on the financial statements on which the firm will express an opinion; and
  - (b) The valuation involves a significant degree of subjectivity.



## General Provisions

### Evaluating Threats Created When Accepting or Providing Valuation Services

- 604.5A1 Providing valuation services to an audit client might create a self-review threat. Factors that are important to the firm's evaluation of the level of any threat created when accepting and providing valuation services to an audit client include:
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
  - The degree of subjectivity inherent in the item for valuations involving standard or established methodologies.
  - Whether the valuation will have a material effect on the financial statements.
  - The extent and clarity of the disclosures related to the valuation in the financial statements.
  - The degree of dependence on future events of a nature that could create significant volatility inherent in the amounts involved.
- 604.5 A2 Certain valuations do not involve a significant degree of subjectivity. This is likely to happen 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.
- 604.5 A3 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 set out in paragraph 605.8, relating to such services apply.

### Addressing Threats Created When Accepting or Providing Valuation Services

- 604.6 A1 Examples of actions that that in certain circumstances might be safeguards in addressing the self-review threats created when accepting or providing valuation services to an audit client include:
- Using valuation services professionals who are not members of the audit team to perform the valuation services service;
  - Having professional who was not involved in providing the valuation service review the audit or valuation work performed; or
  - Hiring a valuation services professional external to the firm to review the service.
- [Subject to further revision. See Agenda Item 3-C]**

## Subsection 605 – Taxation Services

### Introduction

- 605.1 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.
- 605.2 Subsection 605 sets out requirements and application material on applying the conceptual framework set out in Section 120 when providing taxation services to an audit client. While this subsection deals with different types of taxation services described above separately under separate headings, in practice, the activities involved in providing taxation services are often interrelated.

### Requirements and Application Material

#### *Evaluating Threats Created When Accepting or Providing Taxation Services to Audit Clients*

- 605.3 A1 Accepting and providing taxation services to an audit client might create a self-review or advocacy threat. Factors that are important to the firm's evaluation of the level of any threat created when performing certain taxation services for audit clients include:
- The particular characteristics of the engagement;
  - The level of tax expertise of the client's employees;
  - The system by which the tax authorities assess and administer the tax in question and the role of the firm in that process; and
  - The complexity of the relevant tax regime and the degree of judgment necessary in applying it.

#### *Tax Return Preparation*

- 605.4 A1 Tax return preparation services involve assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized forms) required to be submitted to the applicable tax authorities. 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 (for example, including providing explanations of and technical support for the approach being taken).
- 605.4 A2 Tax return preparation services are usually based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority considers appropriate. Accordingly, providing such services does not usually create a threat to independence if management takes responsibility for the returns including any significant judgments made. However, application of the conceptual

framework requires that the firm evaluate the level of any threat created and address such threat so that it is eliminated or reduced to an acceptable level (see paragraph R600.4).

*Tax Calculations for the Purpose of Preparing Accounting Entries*

Addressing Threats Created When Accepting or Providing Tax Calculations

Audit clients that are public interest entities

**R605.5** A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.

Audit clients that are not public interest entities

605.5 A1 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.

605.5 A2 Factors that are important to the firm's evaluation of the level of any threat created when preparing tax calculations for the purpose of preparing accounting entries for an audit client that is not a public interest entity include:

- The complexity of the relevant tax law and regulation and the degree of judgment necessary in applying them;
- The level of tax expertise of the client's personnel; and
- The materiality of the amounts to the financial statements.

605.5 A3 Examples of actions that in certain circumstances might be safeguards in addressing self-review or advocacy threats created when accepting or providing tax calculations for the purpose of preparing accounting entries for an audit client that is not a public interest entity include:

- Using tax professionals who are not members of the audit team to perform the tax service; or
- If the service is performed by an audit team member, using a partner or senior member of personnel with appropriate expertise who is not an audit team member to review the tax calculations.

*Tax Planning and Other Tax Advisory Services*

605.6 A1 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.

**R605.7** A firm or a network firm shall not accept or provide taxation advisory services to an audit client when 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.

#### Evaluating Threats Created When Accepting or Providing Tax Planning and Other Tax Advisory Services

605.8 A1 A self-review threat might be created where the tax advice will affect matters to be reflected in the financial statements.

605.8 A2 Factors that are important to the firm's evaluation of the level of any threat created when accepting providing tax advice to audit clients include:

- The level of tax expertise of the client's employees;
- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements;
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements;

For example, providing tax planning and other tax advisory services where the advice is clearly supported by tax authority or other precedent, established practice, or has a basis in tax law that is likely to prevail does not usually create a threat to independence.

- The extent to which the advice is supported by tax law or regulation, other precedent or established practice;
- The extent to which the outcome of the tax advice will have a material effect on the financial statements; and
- 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.

#### Addressing Threats Created When Accepting or Providing Tax Planning and Other Tax Advisory Services, Including Safeguards

605.9 A1 Examples of actions that in certain circumstances might be safeguards in addressing self-review threats created when accepting or providing tax planning and other tax advisory services include:

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

### *Taxation Services Involving Valuations*

- 605.10 A1 If a firm performs a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes where the result of the valuation will have a direct effect on the financial statements, the provisions set out in Subsection 604 relating to valuation services apply.
- 605.10 A2 A valuation might be performed for tax purposes only where 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 usually create threats if the effect on the financial statements is immaterial or the valuation is subject to external review by a tax authority or similar regulatory authority.

### *Evaluating Threats Created When Accepting or Providing Taxation Services Involving Valuations*

- 605.10 A3 If the valuation that is performed for tax purposes is not subject to such an external review and the effect is material to the financial statements, the following factors are important to the firm's evaluation of the level of any threat created from the provision those services to an audit client :
- The extent to which the valuation methodology is supported by tax law or regulation, other precedent or established practice;
  - The degree of subjectivity inherent in the valuation; and
  - The reliability and extent of the underlying data.

### *Addressing Threats Created When Accepting or Providing Taxation Services Involving Valuations*

- 605.10 A4 Examples of actions that in certain circumstances might be safeguards in addressing self-review or advocacy threats when accepting or providing taxation services involving valuations include:
- Using tax 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*

- 605.10 A11 A tax dispute arises when the tax authorities have notified an audit client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding, for example before a tribunal or court. An advocacy or self-review threat might be created when the firm or the network firm represents an audit client in the resolution of such a tax dispute.
- R605.11** A firm or a network firm shall not accept or provide taxation services that involve providing assistance in the resolution of tax disputes to an audit client if:
- (a) The services involve acting as an advocate for the audit client before a public tribunal or court in the resolution of a tax matter; and

- (b) The amounts involved are material to the financial statements on which the firm will express an opinion.

605.11 A1 What constitutes a “public tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

#### Continuing Advisory Roles in the Resolution of Tax Disputes

605.11 A2 Paragraph R605.11 does not preclude a firm from having a continuing advisory role, for example:

- (a) Responding to specific requests for information;
- (b) Providing factual accounts or testimony about the work performed; or
- (c) 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.

#### Evaluating Threats Created by Having a Continuing Advisory Role in the Resolution of Tax Disputes

605.11 A3 Factors that are important to the firm’s evaluation of the level of any threat created by having a continuing advisory role in the resolution of tax disputes of an audit client include:

- The role management plays in the resolution of the dispute;
- The extent to which the outcome of the dispute will have a material effect on the financial statements on which the firm will express an opinion;
- Whether the advice which is the subject of the tax dispute has been provided by either the firm or network firm;
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice; and
- Whether the proceedings are conducted in public.

#### Addressing Threats Created by Having a Continuing Advisory Role in the Resolution of Tax Disputes

605.11 A4 Examples of actions that in certain circumstances might be safeguards in addressing self-review or advocacy threats created by having a continuing advisory role in the resolution of tax disputes include:

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

## **Subsection 606 – Internal Audit Services**

### **Introduction**

606.1 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.

606.2 Internal audit services involve assisting the audit client in the performance of its internal audit activities. Internal audit activities might include:

- Monitoring of internal control – reviewing controls, monitoring their operation and recommending improvements to them;
- Examining financial and operating information by:
  - Reviewing the means used to identify, measure, classify and report financial and operating information; and
  - Inquiring specifically into individual items including detailed testing of transactions, balances and procedures;
- Reviewing the economy, efficiency and effectiveness of operating activities including non-financial activities of an entity; and
- Reviewing compliance with:
  - Laws, regulations and other external requirements, and
  - Management policies and directives and other internal requirements.

606.3 Subsection 606 sets out requirements and application material on applying the conceptual framework set out in Section 120 when providing internal audit services to an audit client.

## **Requirements and Application Material**

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

**R606.4** A firm or a network firm shall not accept or provide internal audit services to an audit client that is a public interest entity, if the services 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, material 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.

### *General Provisions*

606.5 A1 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. Paragraph R601.3 precludes a firm from assuming a management responsibility for an audit client. 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.

- 606.5 A2 Examples of internal audit services that involve assuming management responsibilities include:
- Setting internal audit policies or the strategic direction of internal audit activities;
  - Directing and taking responsibility for the actions of the entity's internal audit employees;
  - Deciding which recommendations resulting from internal audit activities to implement;
  - Reporting the results of the internal audit activities to those charged with governance on behalf of management;
  - Performing procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges;
  - Taking responsibility for designing, implementing and maintaining internal control; and
  - 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
    - Might have responsibility for one or more of the matters noted above.

**R606.6** A firm or a network firm shall not accept or provide an internal audit service to an audit client unless, in providing the service, personnel of the firm do not assume a management responsibility and the firm is satisfied that:

- (a) The client designates an appropriate and competent resource, preferably within senior management, to:
  - (i) Be responsible at all times for internal audit activities; and
  - (ii) 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.

#### Identifying Threats Created by Accepting and Providing Internal Audit Services to an Audit Client

- 606.7 A1 Providing internal audit services for an audit client might create a self-review threat.
- 606.7 A2 When a firm uses the work of an internal audit function, International Standards on Auditing 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, the results of those services might be used in conducting the external audit. This creates a self-review threat



because it is possible that the audit team will use the results of the internal audit service for purposes of the audit engagement without:

- 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.

#### Evaluating Threats Created by Accepting or Providing Internal Audit Services to an Audit Client

606.8 A1 Factors that are important to the firm's evaluation of the level of any threat created by accepting or providing internal audit services to an audit client include:

- 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.

#### Addressing Threats Created by Accepting or Providing Internal Audit Services to an Audit Client

606.9 A1 Examples of actions that in certain circumstances might be safeguards in addressing self-review threats created when accepting or providing internal audit services to an audit client include:

- Using internal audit professionals who are not members of the audit team to perform the internal audit service; or
- Having a professional external to the firm to review the internal audit service.

## **Subsection 607 – Information Technology Systems Services**

### **Introduction**

607.1 Services related to information technology (IT) systems include the design or implementation of hardware or software systems. The IT systems might:

- (a) Aggregate source data;
- (b) Form part of the internal control over financial reporting; or
- (c) Generate information that affects the accounting records or financial statements, including related disclosures.

However, the IT systems might involve matters that are unrelated to the audit client's accounting records or the internal control over financial reporting or financial statements.

607.2 Subsection 607 sets out requirements and application material on applying the conceptual framework set out in Section 120 when providing IT system services to an audit client.

## Requirements and Application Material

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

- R607.3** A firm or a network firm shall not accept or provide IT systems services to an audit client that is a public interest entity if the services involve 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 on which the firm will express an opinion.

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

- R607.4** A firm or a network firm shall not accept or provide an IT systems service to an audit client that is not a public interest entity if the service involves the design or implementation of 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 on which the firm will express an opinion,
- unless appropriate policies and procedures are put in place ensuring that:
- (i) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
  - (ii) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
  - (iii) The client makes all management decisions with respect to the design and implementation process;
  - (iv) The client evaluates the adequacy and results of the design and implementation of the system; and
  - (v) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

### *General Provisions*

- 607.5 A1 Performing IT systems services for an audit client might create a self-review threat depending on the nature of the services and the IT systems.
- 607.5 A2 The following IT systems services do not usually create a threat to independence as long as personnel of the firm do not assume a management responsibility:
- (a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;
  - (b) Designing or implementing IT systems that do not generate information forming a significant part of the accounting records or financial statements;

- (c) Implementing “off-the-shelf” accounting or financial information reporting software that was not developed by the firm, if the customization required to meet the client’s needs is not significant; and
- (d) Evaluating and making recommendations with respect to a system designed, implemented or operated by another service provider or the client.

#### Addressing Threats Created by Accepting or Providing IT Services to an Audit Client

**R607.6** If a firm determines that it is permitted by paragraph R607.5 to provide an IT systems service, the firm or the network firm shall determine whether to provide that service only with personnel who are not members of the audit team and who have different reporting lines from the members of the audit team.

607.6 A1 The determination to be made in paragraph R607.6 depends on the degree of reliance that will be placed on the particular IT systems as part of the audit.

607.6 A2 Examples of actions that in certain circumstances might safeguards in addressing self-review threats created when accepting or providing IT systems services to an audit client include:

- Using IT professionals who are not members of the audit team to perform the service.
- Hiring a professional external to the firm to review the IT service. **[Subject to further revision. See Agenda Item 3-C]**

### Subsection 608 – Litigation Support Services

#### Introduction

608.1 Litigation support services might include activities such as:

- Assisting with document management and retrieval.
- Acting as an expert witness;
- Calculating estimated damages or other amounts that might become receivable or payable as the result of litigation or other legal dispute; and

608.2 Subsection 608 sets out application material on applying the conceptual framework set out in Section 120 when providing litigation support services to an audit client.

#### Application Material

##### Evaluating Threats Created When Accepting or Providing Litigation Support Services

608.3 A1 Providing litigation support services to an audit client might create a self-review or advocacy threat.

608.3 A2 The type and level of the threat created varies based on the type of litigation support service. The level of the threat is also impacted by the legal and regulatory environment in which the service is provided. If a firm or a network firm provides a litigation support service to an audit client and the service involves estimating damages or other amounts that affect the financial

statements on which the firm will express an opinion, the requirements and application material set out in Subsection 604 related to valuation service and paragraph R605.11–605.11 apply.

- 608.3 A3 The range of litigation support services that involve acting as an expert witness is broad and can range from matters that are mechanical and routine in nature to matters that are more complex. Factors that are important to the firm's evaluation of the level of any threat created by accepting or providing litigation support services that involve acting as an expert witness include:
- The role and responsibilities to be undertaken by the firm or the network firm.
  - Whether the firm or the network firm is appointed by the court or other third party to perform the service.
  - The nature and impact of service, for example the materiality or significance of the service to be provided in relation to the financial statements on which the firm will express an opinion or financial information which forms the basis for the financial statements.

## **Subsection 609 – Legal Services**

### **Introduction**

- 609.1 Legal services are defined as any services for which the individual providing the services must either: (a) be admitted to practice law before the courts of the jurisdiction in which such services are to be provided; or (b) have the required legal training to practice law. Depending on the jurisdiction, legal services might include a wide and diversified range of areas including both corporate and commercial services to clients, such as contract support, litigation, mergers and acquisition legal advice and support and assistance to clients' internal legal departments.
- 609.2 Providing legal support services to an audit client might create a self-review or advocacy threat.
- 609.3 Subsection 609 sets out requirements and application material on applying the conceptual framework set out in Section 120 when providing legal services to an audit client.

### **Requirements and Application Material**

- R609.4** A firm or a network firm shall not act in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion.
- R609.5** A partner or employee of the firm or the network firm shall not accept an appointment as General Counsel for legal affairs of an audit client.
- 609.5 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

### *Identifying Threats Created When Accepting or Providing Legal Services to an Audit Client*

- 609.6 A1 Acting in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are not material to the financial statements on which the firm will express an opinion might create advocacy and self-review threats.

- 609.6 A2 Legal services that support an audit client in executing a transaction might create self-review threats. Examples of such legal services might be, contract support, legal advice, legal due diligence and restructuring.

*Evaluating Threats Created When Accepting or Providing Legal Services to an Audit Client*

- 609.7 A1 When a firm or a network firm is asked to provide legal services, including acting in an advocacy role for an audit client when the amounts involved are not material to the financial statements on which the firm will express an opinion. Factors that are important to the firm's evaluation of the level of threats created when accepting or providing legal services to an audit client include:
- The nature of the service;
  - Whether the service is provided by an audit team member; and
  - The materiality of any matter in relation to the client's financial statements.

*Addressing Threats Created When Accepting or Providing Legal Services to an Audit Client*

- 609.8 A1 Examples of actions that in certain circumstances might be safeguards in addressing self-review and advocacy threats created when accepting or providing legal services include:
- Using legal services professionals who are not members of the audit team to perform the service; or
  - Having a services professional who was not involved in providing the legal services advise the audit team on the service and review any financial statement treatment.

## **Subsection 610 – Recruiting Services**

### **Introduction**

- 610.1 Accepting or providing recruiting services to an audit client might create a self-interest, familiarity or intimidation threat.
- 610.2 Subsection 610 sets out requirements and application material on applying the conceptual framework set out in Section 120 when accepting or providing recruiting services to an audit client.

### **Requirements and Application Material**

- R610.3** A firm or a network firm shall not accept or provide a recruiting service to an audit client 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 on which the firm will express an opinion; if the service involves:
- (a) Searching for or seeking out candidates for such positions; and
  - (b) Undertaking reference checks of prospective candidates for such positions.
- R610.4** When accepting or providing recruiting services to an audit client, the firm or the network firm shall not assume management responsibilities including acting as a negotiator on the client's behalf, and the hiring decision shall be made by the client.

*Evaluating Threats Created When Accepting or Providing Recruiting Services to an Audit Client*

610.5 A1 Accepting or providing the following services does not usually create threats:

- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the post; or
- Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions.

610.5 A2 Factors that are important to the firm's evaluation of the level of any threat created by accepting and providing recruiting services to an audit client include:

- The nature of the requested assistance; and
- The role of the individual to be recruited.

*Addressing Threats Created When Accepting or Providing Recruiting Services to an Audit Client*

610.6 A1 Examples of actions that in certain circumstances might be safeguards in addressing self-interest, familiarity or intimidation threats created by accepting or providing recruiting services include:

- Using services professionals who are not members of the audit team to perform the service; or
- Having a recruiting services professional not involved in performing the service review the service.

## **Subsection 611 – Corporate Finance Services**

### **Introduction**

611.1 Subsection 611 sets out requirements and application material on applying the conceptual framework set out in Section 120 when accepting or providing corporate finance services to an audit client.

### **Requirements and Application Material**

**R611.2** A firm or a network firm shall not accept or provide corporate finance advice to an audit client where the effectiveness of corporate finance 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.

**R611.3** A firm or a network firm shall not accept or provide corporate finance services to an audit client that involve promoting, dealing in, or underwriting the audit client's shares.

*Identifying Threats Created When Accepting or Providing Corporate Finance Services to an Audit Client*

611.4 A1 Providing corporate finance services to an audit client might create an advocacy or self-review threat. Examples of corporate finance services that might create a threat to independence include:

- Assisting an audit client in developing corporate strategies;
- Identifying possible targets for the audit client to acquire;
- Advising on disposal transactions;
- Assisting finance raising transactions; and
- Providing structuring advice.

611.4 A2 Accepting or providing a corporate finance service, for example advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will express an opinion, might create a self-review threat.

*Evaluating Threats Created When Accepting or Providing Corporate Finance Services to an Audit Client*

611.5 A1 Factors that are important to the firm's evaluation of the level of any threat created when accepting or providing corporate finance services to an audit client include:

- The degree of subjectivity involved in determining the appropriate treatment for the outcome or consequences of the corporate finance advice in the financial statements;
- The extent to which:
  - The outcome of the corporate finance advice will directly affect amounts recorded in the financial statements; and
  - The amounts are material to the financial statements; and
- Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

*Addressing Threats Created When Accepting or Providing Corporate Finance Services to an Audit Client*

611.6 A1 Examples of actions that in certain circumstances might be safeguards in addressing advocacy or self-review threats created by accepting or providing a corporate finance service to an audit client include:

- Using corporate finance service professionals who are not members of the audit team to perform the service; or
- Having a service professional who was not involved in providing the corporate finance service advise the audit team on the service and review the accounting treatment and any financial statement treatment.