

## NAS– Conforming Amendments to Section 400

(Mark-up from Extant)

**Note:** This document includes a mark-up of the changes being proposed to the relevant paragraphs in Section 400 of the revised and restructured Code (i.e., the extant Code) with notes to explain the Task Force’s rationale for those changes.

- **Agenda Item 2-B.1** is provided for information and is a mark-up of the changes to the draft that was circulated to the Board in July 2019.
- **Agenda Item 2-B.2** is also provided for information and is a clean version of the Task Force’s proposed conforming amendments to Section 400.

### INTERNATIONAL INDEPENDENCE STANDARDS

#### PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

##### SECTION 400

###### General

**R400.11** A firm performing an audit engagement shall be independent.

**R400.12** A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

###### Prohibition on Assuming Management Responsibilities

~~R400.13~~~~R600.7~~ A firm or a network firm shall not assume a management responsibility for an audit client.

~~600.7 A1~~ 400.13 A1 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.

400.13 A2 When a firm assumes a management responsibility for an audit client, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interest of management.

400.13 A3 ~~600.7 A3~~— Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility, and therefore would not be assumed for audit clients 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 bank accounts or investments.

- Deciding which recommendations of the firm or network 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.
  - Designing, implementing, monitoring or maintaining internal control.
  - Performing network security and maintenance.

~~400.13 A4~~ ~~600.7 A4~~ Providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. (Ref: Para. 600.16 A1 to 600.16 A3).

~~R400. 14~~~~600.8~~ ~~To avoid assuming a management responsibility, when providing any non-assurance service to an audit client, t~~The 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 always 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 or network 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.
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the services.

[Paragraphs 400.157 to 400.19 are intentionally left blank]

**1. Prohibition on Assuming Management Responsibility**

- The proposed revisions in R400.13 to R400.14 reflect the Task Force's updated views for how the general prohibition and supporting material relating to assuming management responsibilities should be positioned in the Code.
  - The Task Force affirms its view that the new placement in Section 400 makes the prohibition more prominent in the Code and is clearer because of its closer proximity to the requirement for the firm to be independent.
  - Moving R600.8 to R400.14 is intended to emphasize the fact that firms and network firms are prohibited from assuming a management responsibility for audit clients more broadly and not only when they provide NAS.
- Within R400.14, the words "To avoid assuming a management responsibility when providing any non-assurance service to an audit client, ..." is deleted.

## Related Entities

**R400.20** As defined, an audit client that is a listed entity includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

**[Paragraphs 400.21 to 400.29 are intentionally left blank]**

## Period During which Independence is Required

### All Audit Clients

**R400.30** Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the financial statements.

400.30 A1 The engagement period starts when the audit team begins to perform the audit. The engagement period ends when the audit report is issued. When the engagement is of a recurring nature, it ends at the later of the notification by either party that the professional relationship has ended or the issuance of the final audit report.

**R400.31** If an entity becomes an audit client during or after the period covered by the financial statements on which the firm will express an opinion, the firm shall determine whether any threats to independence are created by:

- (a) Financial or business relationships with the audit client during or after the period covered by the financial statements but before accepting the audit engagement; or
- (b) Previous services provided to the audit client by the firm or a network firm.

400.31 A1 Threats to independence are created if a non-assurance service was provided to an audit client during, or after the period covered by the financial statements, but before the audit team begins to perform the audit, and the service would not be permitted during the engagement period.

400.31 A2 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit team members to perform the service.
- Having an appropriate reviewer review the audit and non-assurance work as appropriate.
- Engaging another firm outside of the network to evaluate the results of the non-assurance service or having another firm outside of the network re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

### Audit Clients that are Public Interest Entities

**R400.32** A firm shall not accept appointment as auditor of a public interest entity to which the firm or the network firm has provided a non-assurance service that would create a self-review threat during the period covered by the financial statements on which the firm will express an opinion unless the provision of such service has ceased and:

- (a) The result of the service has been subject to testing by a firm outside of the network;  
or
- (b) Another entity or service provider outside of the network re-performs the service to  
the extent necessary to enable that entity or service provider to take responsibility  
for the service.

[Paragraphs 400.3~~32~~ to 400.39 are intentionally left blank]

**2. Period During which Independence is Required**

- The proposed requirement to clarify the conditions under which a firm or network firm can accept an engagement to be an independent auditor for an entity where that firm or network firm previously provided a prohibited NAS to the entity that was included in the June 2019 draft is retained.
- The proposed requirement in R400.32 has been updated to reflect drafting suggestions from IESBA members. See Agenda Item 2-B.1.