

NAS–Proposed Conforming Amendments Relating to Assurance Engagements Other than Audit and Review Engagements in Part 4B, Sections 950 and 900

(Mark-up from July 2019¹)

A. Proposed Conforming Amendments to Section 950

SECTION 950

PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS

Introduction

- 950.1 Firms are required to comply with the fundamental principles, be independent, and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 950.2 Firms might provide a range of non-assurance services to their assurance clients, consistent with their skills and expertise. Providing certain non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.
- 950.3 The requirements and application material in this section assist firms in analyzing certain types of non-assurance services and the related threats that might be created when a firm accepts or provides non-assurance services to an assurance client.

Requirements and Application Material

General

- 950.4 A1 New business practices, the evolution of financial markets and changes in information technology, are among the developments that make it ~~impractical~~impossible to draw up an all-inclusive list of non-assurance services that firms might provide to an assurance client. As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to an ~~assurance~~-client.

Non-Assurance Provisions in Laws or Regulations

- 950.5 A1 ~~Paragraph~~Paragraphs R100.3 to 100.3 A2 set out a requirement and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the ~~provisions~~provision of non-assurance services that differ from or go beyond those set out in this section, firms in ~~those~~that jurisdictions need to be aware of those differences and comply with the more stringent provisions unless ~~prohibited by laws or regulations~~they are required by law or regulation to provide such services.

Prior to Acceptance of a Non-Assurance Engagement

- R950.6** Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall ~~determine whether providing such a service might create a threat to~~

¹ The Task Force's proposed changes are to proposed text in the IESBA's March 2019 Exposure Draft, *Proposed Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised)* (Part 4B ED). The comment deadline for the Part 4B ED was June 26, 2019. The Board will consider the feedback from respondents and the related revisions to the Part 4B ED with a view to agreeing to a close-off document by December 2019.

~~independence~~ apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by the provision of that non-assurance service.

Identifying Threats

950.7 A1 A description of the categories of threats that might arise when a firm ~~or network firm~~ provides ~~a non-assurance service~~ service to an assurance client is set out in paragraph 120.6 A3.

Evaluating Threats

- 950.8 A1 Factors that are relevant in evaluating the level of threats created by providing a non-assurance service to an assurance client include:
- The nature, scope and purpose of the service and whether the engagement is of public interest.
 - The legal and regulatory environment in which the service is provided.
 - The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
 - ~~• The legal and regulatory environment in which the service is provided.~~
 - Whether the outcome of the service will affect the underlying subject matter and, in an attestation engagement, matters reflected in the subject matter information of the assurance engagement, and, if so:
 - The extent to which the outcome of the service will have a material or significant effect on the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement.
 - The extent to which the assurance client determines significant matters of judgment.
 - The level of expertise of the client's management and employees with respect to the type of service provided.

Materiality in Relation to an Assurance Client's Information

950.9 A2 The concept of materiality in relation to an assurance client's information is addressed in International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

Multiple Non-assurance Services Provided to the Same Assurance Client

R950.10 When a firm provides multiple non-assurance services to an assurance client, the firm shall consider in addition to the threats created by each service individually, whether the ~~nature, scale or~~ combined effect of such services ~~create~~ creates or impacts threats to

independence, ~~in addition to the threats that might be created individually.~~

~~900950.~~ 10 A1 In addition to paragraph 950.8 A1, factors that are relevant ~~when~~in evaluating the level of the threat created by providing multiple non-assurance services to an assurance client might include whether:

- ~~The~~The combined effect of providing multiple services impacts the level of ~~the~~ threats created by each individual service ~~is impacted by the combined effect of providing multiple services.~~
- ~~Another non-assurance service(s) impacts the assessments made when considering the threats created arising from other non-assurance services that have been or are being provided to the assurance client.~~
- ~~Another non-assurance service(s)~~ impacts the effectiveness of safeguards put in place in relation to other non-assurance engagements.

Addressing Threats

950.11 A1 Paragraphs R120.10 ~~to~~ 120.10 A2 include a requirement and application material ~~for that are relevant when~~ addressing threats to independence. ~~When providing a non-assurance service or multiple non-assurance services to an assurance client, safeguards, including a description of safeguards~~Safeguards might not be available to reduce ~~the threat(s) any threats created by providing non-assurance services to an audit client~~ to an acceptable level. ~~In such situations~~a situation, the application of the conceptual framework ~~set out in Section 120~~ requires the firm to ~~decline~~:

- Adjust the scope of the proposed non-assurance service to eliminate any threats that are not at an acceptable level;
- Decline or end ~~either: (i)~~ the non-assurance service ~~(s)~~ that ~~create~~creates the threat ~~(s)~~ that cannot be eliminated or reduced to an acceptable level; or ~~(ii)~~
- End the ~~assurance~~audit engagement.

950.11 A2 Safeguards that might address threats to independence created by providing a non-assurance service to an assurance client vary depending on the facts and circumstances of the assurance and non-assurance engagements. Actions that might be safeguards include:

- Using professionals who are not assurance team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the assurance work or the service performed.
- Obtaining pre-clearance or confirmation of the outcome of the non-assurance service from an appropriate authority (e.g., a financial services regulator).

Self-review Threats

R950.12 The firm shall not accept a non-assurance service engagement for an assurance client when the non-assurance engagement might create a self-review threat unless the firm has eliminated that threat or reduced it to an acceptable level by applying safeguards.

950.12 A1 A self-review threat might be created if, ~~in an attestation engagement~~, the firm is involved in the preparation of subject matter information which ~~subsequently becomes~~ the subject matter information of an assurance engagement. Examples of non-assurance services that might create such self-review threats when providing services related to the subject matter

information of an assurance engagement include:

- (a) Developing and preparing prospective information and subsequently issuing an assurance report on this information.
- (b) In an attestation engagement, performing a valuation that is related to or forms part of the subject matter information of an assurance engagement.

950.12 A2 A self-review threat ~~might be~~ created when a ~~firm or network~~ firm provides a non-assurance service to an assurance client and there is a possibility that the firm will not appropriately evaluate the results of a ~~previous~~ judgment made or an activity performed by another individual within the firm ~~or assurance client, as part of that service and~~ on which the assurance team will rely when forming a judgment as part of an assurance engagement.

Public Interest Assurance Engagements

R950.13 ~~The~~ A firm shall not ~~undertake an~~ accept a public interest assurance engagement ~~that is an attestation engagement~~ if the ~~firm was previously involved in the preparation of the~~ subject matter ~~of that engagement is the outcome of a previously performed non-assurance service~~ information unless:

- (a) The intended ~~recipient of the outcome~~ user of the assurance engagement has approved the provision of ~~that the~~ assurance engagement ~~by the firm~~; or
- (b) The provider of the non-assurance ~~service~~ service is designated by law and regulation.

950.13 A1 A public interest assurance engagement is an engagement ~~the purpose of which is to:~~

- ~~Provide that provides an~~ assurance conclusion to an organisation established by law to ~~regulate/oversee~~ the operation of a business sector or activity in the public interest ~~and~~
- ~~Enable that organisation to discharge [such/its] responsibilities.~~

~~Examples. An example~~ of a public interest assurance engagement ~~include~~ includes reports provided to regulators of financial and capital markets.

Prohibition on Assuming Management Responsibilities

~~R900.X1~~ **R950.6** A firm shall not assume a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm. If the firm assumes a management responsibility as part of any other service provided to the assurance client, the firm shall ensure that the responsibility is not related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement provided by the firm.

~~900.X1~~ **950.6** 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.

~~900.X1~~ **950.6** A2- When a firm assumes a management responsibility for an assurance client, self-review, self-interest and familiarity threats are created. In relation to providing a service related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement provided by the firm, assuming a

management responsibility might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

~~900.X1950.6~~ 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 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 other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.
- Performing network security and maintenance.

Providing Advice and Recommendations

~~900.X1950.14~~ A1-~~X4~~ Providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility. (~~Ref: Para. 950.14 A1~~).

~~R900.X2R950.15~~ When providing non-assurance services to an assurance client that are related to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement, the firm shall be satisfied that client management makes all related 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.

B. Proposed Conforming Amendments to Section 900

SECTION 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR

ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

Requirements and Application Material

General

R900.14 A firm performing an assurance engagement shall be independent of the assurance client.

900.14 A1 For the purposes of this Part, the assurance client in an assurance engagement is the responsible party and also, in an attestation engagement, the party taking responsibility for the subject matter information (who might be the same as the responsible party).

900.14 A2 The roles of the parties involved in an assurance engagement might differ and affect the application of the independence provisions in this Part. In the majority of attestation engagements, the responsible party and the party taking responsibility for the subject matter information are the same. This includes those circumstances where the responsible party involves another party to measure or evaluate the underlying subject matter against the criteria (the measurer or evaluator) where the responsible party takes responsibility for the subject matter information as well as the underlying subject matter. However, the responsible party or the engaging party might appoint another party to prepare the subject matter information on the basis that this party is to take responsibility for the subject matter information. In this circumstance, the responsible party and the party responsible for the subject matter information are both assurance clients for the purposes of this Part.

R900.15 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

Note – In response to feedback from commenters on the June 2019 draft, the material relating management responsibility is repositioned to Section 950.

Network Firms

R900.17 When a firm knows or has reason to believe that interests and relationships of a network firm create a threat to the firm's independence, the firm shall evaluate and address any such threat.

900.17 A1 Network firms are discussed in paragraphs 400.50 A1 to 400.54 A1.

Related Entities

R900.18 When the assurance team knows or has reason to believe that a relationship or circumstance involving a related entity of the assurance client is relevant to the evaluation of the firm's independence from the client, the assurance team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 900.19 to 900.29 are intentionally left blank]

Period During which Independence is Required

R900.30 Independence, as required by this Part, shall be maintained during both:

- (a) The engagement period; and
- (b) The period covered by the subject matter information.

- 900.30 A1 The engagement period starts when the assurance team begins to perform assurance services with respect to the particular engagement. The engagement period ends when the assurance 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 assurance report.
- R900.31** If an entity becomes an assurance client during or after the period covered by the subject matter information on which the firm will express a conclusion, the firm shall determine whether any threats to independence are created by:
- (a) Financial or business relationships with the assurance client during or after the period covered by the subject matter information but before accepting the assurance engagement; or
 - (b) Previous services provided to the assurance client.
- R900.32** Threats to independence are created if a non-assurance service was provided to the assurance client during, or after the period covered by the subject matter information, but before the assurance team begins to perform assurance services, and the service would not be permitted during the engagement period. In such circumstances, the firm shall evaluate and address any threat to independence created by the service. If the threats are not at an acceptable level, the firm shall only accept the assurance engagement if the threats are reduced to an acceptable level.
- 900.32 A1 Examples of actions that might be safeguards to address such threats include:
- Using professionals who are not assurance team members to perform the service.
 - Having an appropriate reviewer review the assurance and non-assurance work as appropriate.
- R900.33** If a non-assurance service that would not be permitted during the engagement period has not been completed and it is not practical to complete or end the service before the commencement of professional services in connection with the assurance engagement, the firm shall only accept the assurance engagement if:
- (a) The firm is satisfied that:
 - (i) The non-assurance service will be completed within a short period of time; or
 - (ii) The client has arrangements in place to transition the service to another provider within a short period of time;
 - (b) The firm applies safeguards when necessary during the service period; and
 - (c) The firm discusses the matter with those charged with governance.

~~Auditor~~ Communication with Those Charged With Governance

- 900.34 A1 Paragraphs R300.9 to 300.9 A2 set out requirements and application material for communicating with those charged with governance. ~~Such requirements and application material are relevant to communications relating to the threats created by providing non-assurance services to an assurance client.~~
- 900.34 A2 Communication with those charged with governance might be appropriate when significant judgments are made, and conclusions reached to address threats to independence in relation to a public interest assurance engagement because the subject matter information of that engagement is the outcome of a previously performed non-assurance service.

[Paragraphs 900.35 to 900.39 are intentionally left blank]

General Documentation of Independence for Assurance Engagements

R900.40 A firm shall document conclusions regarding ...