

## Roundtable Briefing Note

May 2018

*International Ethics Standards Board  
for Accountants®*

---

# Non-assurance Services

Exploring Issues to Determine a Way Forward

**IESBA**

International  
Ethics Standards  
Board for Accountants®

This document has been prepared by the IESBA Non-assurance Services Working Group.

The International Ethics Standards Board for Accountants (IESBA) is a global independent standard-setting board. Its objective is to serve the public interest by setting high-quality ethics standards for professional accountants worldwide and by facilitating the convergence of international and national ethics standards, including auditor independence requirements, through the development of a robust [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code).

The structures and processes that support the operations of the IESBA are facilitated by the International Federation of Accountants (IFAC).

Copyright © May 2018 by the International Federation of Accountants (IFAC).

# ROUNDTABLE BRIEFING NOTE – NON-ASSURANCE SERVICES

## CONTENTS

---

Page	
I.	Background..... 4
II.	Overview of Non-assurance Services (NAS) Provisions in the Code ..... 5
III.	General Policy Objective ..... 6
IV.	Summary of Specific Issues Identified by Stakeholders ..... 7
A.	Materiality..... 7
B.	Public Interest Entities (PIE) and non-PIE Provisions ..... 8
C.	Unconditional NAS Prohibitions (“i.e. a Black List”)..... 8
D.	New and Emerging Services..... 9
E.	Auditor Communication with TCWG ..... 9
F.	Disclosure and Other Matters ..... 10
V.	Questions for Roundtable Participants..... 11
	Appendix 1: Extract of NAS Prohibitions in the Code for PIEs
	Appendix 2: Improvements to Assist in the Application of the Conceptual Framework in Relation to the Provision of NAS to Audit Clients

---

# NON-ASSURANCE SERVICES

## EXPLORING ISSUES TO DETERMINE A WAY FORWARD

### I. Background

1. Auditor independence is critical to public trust in audited financial statements, and contributes to audit quality. In recent years, there have been a number of legal and regulatory developments aimed at responding to issues affecting auditor independence, including audit firms' provision of **non-assurance services** (NAS)<sup>1</sup> to audit clients.<sup>2</sup>
2. Some stakeholders and the Public Interest Oversight Board have called for IESBA to review its International Independence Standards relating to the provision of NAS to audit clients.
3. Having completed a number of projects which culminated in the April 2018 release of a completely rewritten and substantively revised [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) (the Code<sup>3</sup>), the IESBA has established a Working Group to further understand and respond to those calls.

The term **non-assurance services** is used throughout the Code when referring to engagements that do not meet the definition of an assurance engagement. An **assurance engagement** is an engagement in which a professional accountant in public practice (PAPP) expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.

An **audit engagement** is a reasonable assurance engagement in which a PAPP expresses an opinion on whether financial statements are prepared, in all material respects (or give a true and fair view or are presented fairly, in all material respects), in accordance with an applicable financial reporting framework. This includes statutory audits, which is an audit required by legislation or other regulation.

### Global Roundtables

4. In deciding to hold three global roundtables in North America (Washington, DC, USA), Europe (Paris, France), and Asia Pacific (Tokyo, Japan), the IESBA is seeking to further understand stakeholders' views about specific issues that might arise when firms and network firms provide NAS to their audit clients and whether changes are needed to the Code to address them.

### Purpose of Briefing Note

5. This briefing note summarizes the NAS issues that the IESBA has identified to-date, in particular, in relation to audit clients that are public interest entities (PIEs). Some of the issues were raised by

---

<sup>1</sup> Except where otherwise noted, NAS in this paper is used to refer to the term "non-assurance services" as used in the IESBA Code. In some jurisdictions the term "non-audit" services is used in describing similar issues. For example, the term "non-audit services" is used in the UK to cover any service that does not form part of the audit engagement (i.e., both "non-assurance" and "assurance services" other than an audit). The terms "non-audit services" and "non-assurance services" are not defined terms in the IESBA Code.

<sup>2</sup> The main focus of this paper and the roundtable discussions is on firms' provision of NAS to audit clients in the context of independence. Some of the issues may be relevant also to circumstances where firms provide NAS to assurance clients in the context of independence.

<sup>3</sup> The references to "the Code" in this paper are to the revised and restructured Code which was [released](#) on April 9, 2018, and which will become effective in June 2019.

respondents to Exposure Drafts (EDs) relating to the IESBA's recently completed Safeguards and Structure of the Code (Structure) projects, and respondents to the IESBA's November 2017 [Fees Questionnaire](#). The paper is intended to facilitate a multi-stakeholder dialogue to explore possible solutions to the public interest issues that have been raised in relation to the provision of NAS by audit firms. The paper is organized as follows:

- Overview of NAS provisions in the Code;
- General policy objective;
- Summary of specific issues identified by stakeholders; and
- Questions for roundtable participants.

## II. Overview of NAS Provisions in the Code

6. In addition to the requirement to apply the enhanced conceptual framework<sup>4</sup> to identify, evaluate and address threats when providing NAS to audit clients, Section 600<sup>5</sup> of the Code contains general and specific requirements and application material that apply to firms and network firms when providing NAS to audit clients. The general provisions set out in paragraphs 600.1 to R600.10 apply in all situations when a NAS is provided to an audit client. Additional and more specific provisions are set out in subsections 601-610 and apply when providing certain types of NAS to audit clients. A list of the types of NAS that are dealt with in the Code is included in Appendix 1 of this document.
7. As part of the general provisions in paragraphs 600.1 to R600.10, the Code includes:
  - An overarching requirement that **prohibits the assumption of management responsibilities** when providing any NAS to audit clients.<sup>6</sup> 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.
  - **Clarifications and improvements to assist firms and network firms to better apply the conceptual framework** in relation to identifying, evaluating and addressing threats created by providing a NAS to an audit client. For example, the Code now states in a more explicit manner **that there are some situations in which safeguards might not be available, or capable of reducing threats** created by providing a NAS to an acceptable level and that in such situations, the firm or network is required to decline or end the NAS or the audit engagement. Highlights of the clarifications and improvements to the conceptual

The conceptual framework specifies the approach that all professional accountants, including auditors, are required to use to identify, evaluate and address threats to compliance with the fundamental principles and, where applicable, independence.

<sup>4</sup> The conceptual framework is set out in Part 1 – Complying with the Code, Fundamental Principles and Conceptual Framework, Section 120, *The Conceptual Framework*.

<sup>5</sup> International Independence Standards, Part 4A – Independence for Audits and Reviews, Section 600, *Provision of Non-assurance Services to an Audit Client*

<sup>6</sup> See Part 4, Section 600, paragraph R600.7 and related provisions in paragraphs 600.7 A1 to R600.8.

framework is included in Appendix 2 of this document.

- New application material to emphasize the need for firms and network firms to **consider the combined effect of threats created when multiple NAS are provided** to the same audit client.
8. The Code also includes **explicit prohibitions relating to the provision of certain types of NAS** in certain circumstances. In such circumstances, the IESBA has determined that the threats created by providing those NAS to audit clients cannot be eliminated or safeguards cannot be applied to reduce those threats to an acceptable level. A list of the prohibitions that apply when providing certain types of NAS to audit clients that are PIEs is included in Appendix 1 of this document.
  9. The approach used in developing the NAS provisions in the Code is based on the premise that it is impracticable for a global Code to cover an exhaustive list of the types of services that might be provided by a firm or network firm to its audit clients. This is because services are continually being created as business practices and financial markets evolve, and due to advancing technologies. Accordingly, the general provisions in the Code, in particular those set out in the conceptual framework also apply when a specific type of NAS is not explicitly dealt with in the Code.

### III. General Policy Objective

10. NAS provisions at the jurisdictional level frequently include specific requirements to accommodate jurisdictional laws, regulations, norms and customs. These also range from principles-based to explicit rules-based provisions. As a result, there are a myriad of different approaches relating to NAS provisions at the jurisdictional level.
11. The IESBA believes that it is in the public interest that its NAS provisions are not only sufficiently robust, but also principles-based in order that they remain relevant and applicable at the international level. In exploring an approach to assess the various NAS issues raised, the IESBA's objective is to take a leadership position in determining enhancements to global NAS provisions, where necessary in the public interest.
12. Against this background, the first step is to determine the general policy objective that the Code should seek to achieve. Questions have been raised about whether the Code should:
  - Include, to the extent possible, consistent NAS provisions that meet the objective and expectations of all stakeholders (a globally harmonized approach);

or

  - Recognize that individual jurisdictional circumstances need to be accommodated, but that steps should be taken to enhance NAS provisions as appropriate in the public interest?

In either circumstance, it will be important to ensure that the conceptual framework continues to provide a strong foundation to deal with NAS, including new and emerging services.

13. Stakeholder engagement will play an important part in the process of reconciling the differing views about the overarching policy objective. Informed by the feedback from its global roundtables, targeted outreach, and other related fact-finding, the IESBA will determine how best to respond to the issues relating to NAS. The NAS fact-finding will include a comparison of the NAS provisions in the Code (i.e., those intended for global applicability) to the national ethics and independence provisions that apply at the jurisdictional level.

#### IV. Summary of Specific Issues Identified by Stakeholders

14. Regardless of the overarching policy approach to be adopted, stakeholders have identified a number of specific NAS issues to be addressed. Those issues have been characterized in different and often interrelated ways, and will require a consideration of whether:

- Judgments about **materiality** should be a factor in determining whether a particular NAS is permissible.
- There is a need for different NAS provisions for different types of entities (e.g., **PIE and non-PIE provisions**).
- The Code should include additional **unconditional<sup>7</sup> NAS prohibitions** (“i.e. additions to the current prohibitions/ **“black list”** in the Code”).
- There is a need to develop additional guidance for **new and emerging types of services**.
- There needs to be improved **communication between auditors and those charged with governance (TCWG)**.
- Suggestions for **disclosure and other matters** should be addressed.

##### A. Materiality

15. With respect to PIEs, the Code allows for the provision of certain NAS that would otherwise be prohibited provided that the firm or network firm determines that such NAS are immaterial or not significant.<sup>8</sup> For example, the Code prohibits the provision of:

- Accounting and bookkeeping services, including preparing financial statements on which the firm will express an opinion or financial information which forms the basis of such financial statements, except where they are of a routine and mechanical nature for divisions or related entities of an audit client that is a PIE if the personnel providing the services are not audit team members and:<sup>9</sup>
  - 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
  - The service relates to matters that are collectively **immaterial** to the financial statements of the division or related entity.
- Valuation services, including tax services involving valuation, that have a **material** effect on the financial statements on which the firm will express an opinion.
- Internal audit services relating to:
  - A **significant** part of internal control over financial reporting (ICFR);
  - Financial accounting systems that generate information that is, individually or in the aggregate, **material** to the client’s records; or
  - Amounts or disclosures that are, individually or in the aggregate, **material** to the

<sup>7</sup> The term “**unconditional** NAS prohibitions” is used in this paper to refer situations in which a prohibition is not qualified by a specific circumstance or condition (e.g., materiality considerations or whether the audited entity is a PIE).

<sup>8</sup> See Appendix 1 for a list of the NAS prohibitions (“black list”) in the Code that apply to audits of PIEs.

<sup>9</sup> See International Independence Standards, Part 4A, Section 600, paragraphs R601.5 to R601.7.

financial statements.

16. Some stakeholders, in particular those who suggested the need for a more restrictive and clearer NAS “black list” (see subsection C below), have questioned the appropriateness of an approach that allows consideration of materiality and significance. Those stakeholders believe that allowing consideration of materiality and significance in determining permissibility leads to inconsistencies in how firms and network firms apply the NAS provisions in the Code. These stakeholders have suggested the need for an approach that is clearer and easier to enforce. For example:
- Some have suggested that the reference to materiality or significance in such circumstances should be removed.
  - Others have suggested that the IESBA should provide additional guidance to explain how the concepts of materiality and significance should be applied. In this regard, questions have been raised about whether the new application material relating to materiality in the Code provides sufficient additional guidance, or whether there is a need for other actions to ensure that professional accountants apply the concepts of materiality and significance in a consistent manner in the context of the Code.<sup>10</sup>

## **B. PIE and non-PIE Provisions**

17. Some stakeholders have questioned the IESBA’s rationale for having differential provisions for audits of entities that are PIEs versus non-PIEs. Those stakeholders believe that no distinction should be drawn between the requirements in the Code for PIEs and non-PIEs – i.e., that NAS provisions in the Code should be the same for all entities.
18. Others have suggested that the IESBA should consider adopting a different approach to categorize the provisions in the Code. Those stakeholders (particularly small- and medium-sized practices (SMPs)) believe that greater consideration should be given to the specific circumstances of small- and medium-sized entities (SMEs) / SMPs and suggested that the IESBA should instead establish provisions for audits of SMEs versus non-SMEs; or owner-managed enterprises (OMEs) versus non-OMEs.
19. Because the current stakeholder debate about NAS has been centered on prohibiting auditors from providing certain NAS to audit clients that are PIEs, as a first step, the IESBA is focusing on exploring the NAS issues that relate to PIEs only. Consequently, those issues and suggestions relate to the variation in the provisions in the Code for PIEs and non-PIEs.

## **C. Unconditional NAS Prohibitions (“i.e. a Black List”)**

20. As noted in Section II above, the Code includes an overarching prohibition on firms and network firms assuming management responsibilities when providing NAS to audit clients, as well as specific prohibitions regarding the provision of certain types of NAS either in all, or some circumstances, for example:
- When the outcome of the NAS is material or significant to the financial statements on which the firm will express an opinion (see subsection A above).

---

<sup>10</sup> Paragraph 600.5 A3 of the Code contains new application material relating to materiality in relation to an audit client’s financial statements. This new application material explains that the determination of materiality involves the exercise of professional judgment; is impacted by both quantitative and qualitative factors; and is affected by perceptions of the financial information needs of users. The new application material also refers readers to relevant the IAASB standard that deals with materiality.



- Depending on whether the NAS is being provided to an audit client that is a PIE or a non-PIE (see subsection B above).

21. Some stakeholders, in particular, regulators believe that firms and network firms should not be permitted to provide certain NAS to audit clients in all circumstances, *inter alia* because of the issues summarized in paragraphs 15 to 19 above. There is also a view that the Code should include the following unconditional NAS prohibitions so that it can be more closely aligned to the 2014 EU audit legislation:

- Accounting and bookkeeping services such as preparing accounting records and financial statements, including those NAS of a routine or mechanical nature provided to divisions or related entities.
- Designing and implementing IT systems, internal control or risk management procedures.
- Services related to the audited entity's internal audit function.
- Services linked to the audited entity's financing, capital structure and allocation, and investment strategy.
- Litigation support services when used for the purpose of advancing the entity's interest in a legal proceeding or investigation with respect to amounts that are material to the financial statements subject to audit or review.
- Valuation services, including tax services involving valuation.
- Certain types of tax services.

#### **D. New and Emerging Services**

22. Advancing technologies and new business models give rise to new NAS that are not dealt with in the Code and may not also be addressed in national ethics and independence provisions. These new NAS include, for example, services related to block chain, cyber-security and cloud computing.
23. The Code includes general provisions, including the enhanced conceptual framework and general NAS provisions, to assist firms evaluate and address threats created by the provision of NAS that are not explicitly dealt with in the Code.
24. Some stakeholders have suggested that the IESBA should consider establishing new provisions to supplement the general NAS provisions in the Code to deal with the ethics and independence implications of providing these new types of NAS.

#### **E. Auditor Communication with TCWG**

25. Effective oversight by TCWG, including audit committees contribute to supporting audit quality and increasing market confidence in the quality of information in financial reporting. The IAASB's International Standards require auditor communication about certain ethics and independence matters in the case of listed entities.<sup>11</sup> The Code states that "even when not required by the Code,

---

<sup>11</sup> Paragraph 17 of ISA 260, *Communication with Those Charged with Governance* requires that in the case of listed entities, the auditor communicate with TCWG about ethics and independence matters in relation to the engagement team and others in the firm and network firm as appropriate. This communication is required to include a statement about:

- (i) All relationships and other matters between the firm, network firms, and the entity that, in the auditor's professional judgment, may reasonably be thought to bear on independence, including **total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and**

applicable professional standards, laws or regulations, regular communication is encouraged between a firm and TCWG regarding relationships and other matters that might, in the firm's opinion, reasonably bear on independence."<sup>12</sup> It does not repeat the provisions that are included in the IAASB's standards.

26. Some stakeholders have questioned whether:
- The Code should, at a minimum, reflect the provisions relating to auditor communications with TCWG about independence and NAS specific matters that are established in the IAASB's International Standards.
  - Auditor communications with TCWG should be limited to audits of listed entities only, as is the case in the IAASB's International Standards, or whether there is merit to exploring extending the applicability of those provisions to either audits of entities that are PIEs, or to all entities.
27. A few stakeholders have suggested that the IESBA should consider establishing provisions dealing with the communication or approval of the NAS to be performed; as well as the fees charged by the audit firm for providing the NAS – an approach that already exists in some jurisdictions. More broadly, questions have been raised about whether TCWG, for example audit committee members are in need of more guidance or best practices to promote and support audit quality.<sup>13</sup>

#### F. Disclosure and Other Matters

28. Some stakeholders believe that:
- More robust disclosure requirements are needed both in relation to auditor communication with TCWG or in the auditor's report about the nature of NAS that are provided to audit clients and the related fees charged.
  - Fee caps should be established in relation to NAS in order to address the issue of independence in appearance. Those stakeholders pointed out that fee cap restrictions are already established in certain jurisdictions (e.g. in the European Union).
29. Also, questions have been raised about whether the IESBA has a role to play in responding to broader concerns about audit quality and auditor independence that might arise from the multi-disciplinary consulting and advisory services provided by firms and network firms (i.e., firms'

---

**components controlled by the entity.** These fees shall be allocated to categories that are appropriate to assist TCWG in assessing the effect of services on the independence of the auditor; and

- (ii) The **related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.**

<sup>12</sup> See Part 4A, Section 400, *Applying the Conceptual Framework to Independence for Audit and Review Engagements*, paragraphs 400.40 A1 to 400.40 A2. The Code also notes that such auditor communication with TCWG enables TCWG to:

- (a) Consider the firm's judgments in identifying and evaluating threats;
- (b) Consider how threats have been addressed including the appropriateness of safeguards when they are available and capable of being applied; and
- (c) Take appropriate action.

Further, the Code notes that communication with TCWG about the above matter can be particularly helpful with respect to intimidation and familiarity threats.

<sup>13</sup> For example, see the International Organization of Securities Commissions (IOSCO) [Consultation Report on Good Practices for Audit Committees in Supporting Audit Quality](#) that was released in April 2018.

business model). This IESBA initiative on NAS is not intended to deal with issues or concerns relating to firms' provision of such services to non-audit clients.

## V. Questions for Roundtable Participants

30. The IESBA's global roundtables as well as its meetings with key stakeholders, such as national standards setters, firms and regulators will provide important perspectives about each of the NAS issues identified in this paper.
31. At the roundtables, participants will be asked to share their views and rationale in relation to the following questions:

### *General Policy Objective*

1. Should the IESBA's approach to the development of the Code be to:
  - (a) Include, to the extent possible, consistent NAS provisions that take into account the objective and expectations of all stakeholders (a globally harmonized approach)?
  - or
  - (b) Recognize that individual jurisdictional circumstances need to be accommodated, but that steps should be taken to enhance NAS provisions as appropriate in the public interest?

Is there another approach that the IESBA should explore?

### *Materiality*

2. Should the Code retain materiality or significance as a qualifier in determining whether a firm or network firm provides a NAS to an audit client? If materiality or significance is retained as a qualifier in the Code's NAS prohibitions (see Appendix 1), is additional guidance beyond what is already included in paragraph 600.5 A3 needed (see paragraphs 15-16 of this paper)?

### *PIE and Non-PIE Provisions*

3. In an audit context, is there merit to having the same global ethics and independence provisions for all entities, irrespective of their nature and size?
4. What changes, if any, are required in the Code to acknowledge the unique information needs, and the degree of reliance of users of audited financial statements of entities that are PIEs versus non-PIEs?

### *Unconditional NAS Prohibitions (i.e., a Black List)*

5. Should there be unconditional NAS prohibitions in the Code? If so, what criteria should be used to determine whether a NAS should be prohibited? Are there other service(s) that should be prohibited?

### *New and Emerging Services*

6. Are there specific types of NAS, including new or emerging services that are not already addressed in the Code and should be dealt with in an explicit manner? If yes, please identify which NAS and indicate the nature of the requirement or application material that would be required.

*Communication between Auditors and TCWG*

7. What additional requirements, if any, relating to auditor communication with TCWG should be included in the Code? For example:
  - (a) Should the requirement in ISA 260 relating to provision of NAS in the context of compliance with ethics and independence requirements be reflected in the Code?
  - (b) Should the Code include broader provisions to deal with the circumstances warranting approval by TCWG for the provision of NAS to audit clients, including the level of fees involved?

*Disclosure and Other Matters*

8. What disclosure requirements about NAS, if any, should be included in the Code?
9. Should the Code establish fee restrictions in relation to NAS (e.g., fee caps)? What factors, if any, should be considered?
10. What actions, if any, should be taken by IESBA in response to the broader concerns about audit quality and auditor independence that might arise from the multi-disciplinary consulting and advisory services provided by firms and network firms (i.e., issues relating to the firm business model)? What role should others play?

## Extract of NAS Prohibitions in the Code for Public Interest Entities

As discussed in Section II, subsection C of this paper, the Code includes an overarching requirement that **prohibit firms and network firms from assuming management responsibilities** when providing NAS to audit clients; and **specific requirements to prohibit certain types of NAS** either in all circumstances; or in certain circumstances. The specific NAS provisions in the Code relate to:

- Accounting and bookkeeping services.
- Administrative services.
- Valuation services.
- Tax services, including activities such as
  - Tax return preparation.
  - Tax calculations for the purpose of preparing the accounting entries.
  - Tax planning and other tax advisory services.
  - Tax services involving valuations.
  - Assistance in the resolution of tax disputes.
- Internal audit services.
- Information technology (IT) systems services.
- Litigation support services.
- Legal services.
- Recruiting services.
- Corporate finance services.

This Appendix lists the NAS prohibitions that apply to audit clients of entities that are PIEs.<sup>14</sup>

1. *Accounting and bookkeeping services, including preparing financial statements.* The Code includes an exception to this prohibition for accounting and bookkeeping services that is of routine and mechanical nature for divisions and related entities if the divisions and the service are **immaterial** (see paragraphs R601.6 and R601.7).
2. *Valuations services, including tax services involving valuation* that have a **material** effect on the financial statements on which the firm will express an opinion (see paragraph R603.5).
3. *Preparing tax calculations of current and deferred tax liabilities (or assets)* for the purpose of preparing accounting entries that are **material** (see paragraph R604.6).

<sup>14</sup> The requirements and application material that apply when providing NAS to audit clients is set out Sections 600, the full text of which is available at the IESBA's [website](#).

4. *Tax planning and other tax advisory services* when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements, and audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation and the outcome of the tax advice is **material** (see paragraph R604.8).
5. *Tax services that involve assisting in the resolution of tax disputes* if the services involve acting as an advocate for the audit client before a public tribunal or court, and the amounts involved are **material** (see paragraph R604.11).
6. *Internal audit services* relating to (see paragraph R605.5):
  - (a) A **significant** part of the ICFR;
  - (b) Financial accounting systems that generate information that is, individually or in the aggregate, **material** to the client's records; or
  - (c) Amounts or disclosures that are, individually or in the aggregate, **material** to the financial statements.
7. *Information technology (IT) system services involving designing or implementing IT* that form a significant part of the ICFR or generate information that is, individually or in the aggregate, **significant** to the client's records (see paragraph R606.5).
8. *Legal services that involve acting as General Counsel for legal affairs, and acting in an advocacy roles* for an audit client in resolving a dispute or litigation when the amounts involved are **material** (see paragraphs R608.5 and R608.6).
9. *Recruiting services that involve acting as a negotiator* on the client's behalf (see paragraph R609.6).
10. *Recruiting services relating to searching for or seeking out candidates; or undertaking reference checks of prospective candidates*, with respect to (see paragraph R609.7):
  - (a) A director or officer of the entity; or
  - (b) A member of 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.
11. *Corporate finance services that involve promoting, dealing in, or underwriting the audit client's shares* (see paragraph R610.4)
12. *Corporate financial advice* where the effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements and the audit team has reasonable doubt as to appropriateness; and the outcome or consequences of the advice will have a **material** effect on the financial statements (see paragraph R610.5).

## Improvements to Assist in the Application of the Conceptual Framework in Relation to the Provision of NAS to Audit Clients

This Appendix summarizes the improvements that were made to the Code in relation to the application of the conceptual framework in the context of providing NAS to audit clients.<sup>15</sup>

1. **The Code includes new and revised provisions to assist firms and network firms apply the provisions in the conceptual framework in a consistent manner.** The conceptual framework specifies the approach that all professional accountants are required to apply to identify, evaluate and address threats to compliance with the fundamental principles and, where applicable, be independent.

2. The following are highlights of the revisions made to assist firms and network firms better apply the conceptual framework when identifying, evaluating and addressing threats that might be created when providing NAS to audit clients.

- **New application material for evaluating threats, including a list of examples of factors** that firms and network firms might consider in doing this evaluation (see paragraph 600.5 A1). Those factors include:

- The nature, scope and purpose of the service.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The legal and regulatory environment in which the service is provided.
- Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion, and, if so:
  - The extent to which the outcome of the service will have a *material* effect<sup>16</sup> on the financial statements.
  - The degree of subjectivity involved in determining the appropriate amounts or



<sup>15</sup> The requirements and application material that apply when providing NAS to audit clients is set out Sections 600, the full text of which is available at the IESBA's [website](#).

<sup>16</sup> Drawing from the IAASB's auditing standards, the Code also includes new application material to explain materiality in relation to an audit client's financial statements. Refer to Section IV of this document for a further discussion on materiality.

treatment for those matters reflected in the financial statements.

- The level of expertise of the client’s management and employees with respect to the type of NAS provided.
- The extent of the client’s involvement in determining significant matters of judgment.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client’s:
  - Accounting records or financial statements on which the firm will express an opinion.
  - Internal controls over financial reporting.
- Whether the client is a public interest entity. For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of a threat.
- **New and revised requirement and application material for addressing threats:**
  - Clarification that threats are addressed either by:
    1. **Eliminating the circumstance**, interest or relationship creating the threat;
    2. **Applying safeguards**, where available and capable of being applied to reduce the threat(s) to an acceptable level;<sup>17</sup> or
    3. **Declining or ending the specific professional service.**
  - **Clarification that there are some situations in which safeguards might not be available or capable of reducing threats** created by providing a NAS to an acceptable level. In such situations, the firm or network is required to decline or end the NAS or the audit engagement.
  - **Revised description of safeguards** that clarify that they are actions that individually or in combination *effectively* reduce the threats to independence that have been identified to an acceptable level [emphasis added].
  - **Clearer examples of safeguards** that are aligned more closely to the specific type of threats that they are intended to respond to.
- **New application material relating to materiality in relation to an audit client’s financial statements** explain that the determination of materiality involves the exercise of professional judgment, and is impacted by both quantitative and qualitative factors, and is affected by perceptions of the financial information needs of users.<sup>18</sup>
- **Clearer guidance for dealing with advocacy threats**, including:
  - **Clarifications about how to evaluate and address advocacy threats** that are created when providing certain NAS – i.e., valuation, tax, litigation support, legal and

---

<sup>17</sup> Paragraph 120.7 A1 of the Code defines an **acceptable level** as “the level at which a professional accountant using the reasonable and informed third party test would likely conclude that the accountant has complied with the fundamental principles.”

<sup>18</sup> There have been calls for the IESBA to include more guidance to explain the concept of materiality and significance in a broader context, for example in relation to financial interests. Considerations of these broader materiality issues will be explored as part of a separate initiative.



corporate finance services.

- **Increased emphasis on the fact that assuming a management responsibility creates advocacy threats, in addition to familiarity threats** because the firm or network firm becomes too closely aligned with the views and interests of management.



**International  
Ethics Standards  
Board for Accountants®**

529 Fifth Avenue, New York, NY 10017  
T + 1 (212) 286-9344 F +1 (212) 286-9570  
[www.ethicsboard.org](http://www.ethicsboard.org)