



NZAuASB Meeting Agenda

19 June 2021
12.30pm to 2.30 pm
via Teams Meeting

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					

B: PUBLIC SESSION					
12.45 pm	2	<u>Non-Assurance Services</u>			SW
	2.1	Board meeting summary paper	Note	Paper	2
	2.2	Draft ITC	Approve	Paper	4
	2.3	Draft ED	Approve	Paper	19
2.10 pm	3	<u>Fee-Related Matters</u>			SW
	3.1	Board meeting summary paper	Consider	Paper	70
2.25 pm		<u>Closing</u>			

Next meeting: 1 September 2021, Virtual

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	2.1
Meeting date:	19 July 2021
Subject:	Non-Assurance Services
Date:	9 July 2021
Prepared By:	Sharon Walker

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Agenda Item Objectives

1. The objective of this agenda item is to REVIEW and APPROVE:
 - The draft Invitation to Comment (ITC) on the proposed NAS revisions; and
 - The draft exposure draft, *Proposed Revisions to the Non-Assurance Services Provisions of Professional and Ethical Standard 1*.

Background

2. As previously agreed by the Board, the draft ITC:
 - Explains that the NZAuASB is adopting the IESBA proposals and why we consider this approach to be appropriate, i.e., the IESBA requires significantly lift the bar to address perception concerns around NAS (with the very low threshold of “might” create a self-review threat);
 - Explains that the NZAuASB is, in addition to the IESBA requirements, proposing to prohibit the provision of tax advisory and tax planning services, including advising on tax return preparation or any adjustments arising therefrom, and why, i.e., because of the low threshold in that area (“likely to prevail”); and
 - Clarifies that certain additional services (audit or review related services) generally do not create a self-review threat.
3. Changes to the draft ED since the June Board meeting include:
 - Removal of the paragraph emphasising independence in appearance (NZ600.15 A3 in the [June Board Papers](#));
 - The NZ paragraph discussing work related to the audit or review engagement has been repositioned as NZ600.14 A1. In the June Board papers this paragraph sat under the heading “audit or review clients that are PIEs”, however, it is applicable to all audit clients.
 - The June Board papers showed a subheading “Audit or Review Clients that are Not PIEs” above paragraph 604.12 A2. This had been repositioned from above paragraph 604.14 A1. We have moved this subheading back to its original position and instead proposed an amendment to paragraph 604.12 A2.
 - Paragraph 604.12 A2 has been amended to reflect that the extent to which the tax advisory or tax planning service:
 - Is supported by a tax authority or other precedent;

- Is based on an established practice; or
- Has a basis in tax law that the firm is confident is likely to prevail.

is relevant in identifying self-review or advocacy threats created by the provision of the NAS. This application material is applicable to all audit or review clients. The construct used draws on the construct of paragraph 603.3 A2.

- The proposed prohibition on providing tax-advisory and tax planning services to an audit client that is a PIE is unchanged from June. **(NZR 604.15)**

Action Requested

4. The Board is asked to APPROVE the ITC and exposure draft.

Material Presented

Agenda item 2.1	Board Meeting Summary Paper
Agenda item 2.2	Draft Invitation to Comment
Agenda item 2.3	Draft Exposure Draft



NZ AUDITING
AND ASSURANCE
STANDARDS BOARD

**EXPOSURE DRAFT NZAUASB 2021-4
AMENDMENTS TO PROFESSIONAL AND ETHICAL
STANDARD 1: NON-ASSURANCE SERVICES**

Invitation to Comment

July 2021

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DRAFT

Information for respondents

Invitation to Comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all responses before finalising the revisions to the Non-Assurance Services provisions.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues, that are relevant to you.

Comments should be submitted electronically using our 'Open for Comment' page at

[Insert link]

The closing date for submissions is [Date] 2021.

Publication of Submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz) unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or full. The Privacy Act 1993 also applies.

If you have any objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g., that it would be likely to unfairly prejudice the commercial position of the person providing the information).

¹ The NZAuASB is a sub-Board of the External Reporting Board (XRB Board) and is responsible for setting auditing and assurance standards.

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
IESBA	International Ethics Standards Board for Accountants
IIS	International Independence Standards
ITC	Invitation to comment
NAS	Non-assurance service
NZAuASB	New Zealand Auditing and Assurance Standards Board
PES	Professional and Ethical Standard
PIE	Public interest entity
XRB	External Reporting Board

Questions for respondents

Respondents are asked to consider the following specific questions and to respond to the NZAuASB by [Date] 2021:

(i) New Zealand specific changes to tax advisory and tax planning services

Question 1 Do you agree that the provision of tax advisory and tax planning services to an audit client that is a PIE should be prohibited? (Refer **NZ R604.15** – NZ 604.15 A1)

Question 2. Do you foresee any unintended consequences of this prohibition?

Question 3. Do you agree that advising an audit client in their tax return preparation or any adjustments arising therefrom is a form of tax advisory services? As such, consistent with the addition of **NZ R604.15** such services would be prohibited for PIEs. (Refer NZ 604.11 A1)

(ii) Any other Non-assurance services

Question 4. The NZAuASB has not identified any further aspects of the IESBA's provisions that need to be strengthened in New Zealand. We are, however, keen to hear whether stakeholders consider there is a need to further strengthen any specific provisions.

(iii) Audit-related services

- Question 5. Do you agree that additional services performed by the audit firm will generally not create a self-review threat to the firm's independence when the services are related to the audit engagement?
- Question 6. Do you agree that the examples listed would not generally create a self-review threat to independence? Are there other types of services, that would generally not create a self-review threat to independence, that you consider need to be included as examples? (Refer NZ 600.14 A1)
- Question 7. Do you agree that the additional application material emphasising the need to apply the conceptual framework to identify, evaluate and address threats to independence, other than the self-review threat, is helpful to ensure diligent application of the conceptual framework? (Refer NZ 600.14 A1)
- Question 9. Do you consider additional requirements or application material is needed in relation to audit-related services, to address perceptions of auditor independence? If yes, please provide details.

1. Introduction

1.1 Purpose of this Invitation to Comment

1. The purpose of this Invitation to Comment (ITC) is to seek feedback from stakeholders on Exposure Draft (ED) NZAuASB 2021-4, *Amendments to Professional and Ethical Standard 1: Non-Assurance Services*.

1.2 Background

International position

2. The International Ethics Standards Board for Accountants (IESBA) has revised the [non-assurance service \(NAS\) provisions of the IESBA Code](#). The objective of the NAS project was to strengthen the International Independence Standards (IIS) by addressing public interest concerns about the perceived lack of independence when firms provide NAS to their audit clients, in particular those that are Public Interest Entities (PIEs)².
3. Key elements of the revised NAS provisions include:
 - A new prohibition on the provision of a NAS to an audit client that is a PIE where that service might create a self-review threat to the firm's independence (R600.16).
 - New provisions to strengthen and improve the quality of firm communication with those charged with governance about NAS-related matters, including the firm's independence (600.19 A1 - R600.24).
 - Strengthened provisions to assist firms in addressing threats to independence that are created by the provision of NAS to audit clients that are not PIEs, including new application material in relation to situations where a safeguard is not available (600.18 A1 – 600.18 A4)
 - Enhanced guidance to explain that materiality is not relevant in evaluating whether a self-review threat might be created (600.10 A1 - 600.10 A2).
4. When a firm or network firm provides a NAS to an audit client³, the firm must apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service. This is already required for all types of threat: self-review, self-interest, advocacy, familiarity and intimidation.

² For purposes of Professional and Ethical Standard 1, a Public Interest Entity is defined as, any entity that meets the Tier 1 criteria in accordance with XRB A1, *Application of the Accounting Standards Framework*, and is not eligible to report in accordance with the accounting requirements of another tier

³ For simplicity, in the ITC we refer to audit client, however, Part 4A of PES 1 applies equally to audit and review engagements.

5. To address concerns regarding independence in appearance, the revised IESBA NAS provisions focus on the self-review threat. When a firm or network firm provides a NAS to an audit client (whether or not it is a PIE), there is a risk of the firm auditing its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgement made or an activity performed by an individual within the firm or network firm as part of a NAS on which the audit team will rely when forming a judgement as part of an audit.
6. The firm must therefore determine, before it decides whether to provide the service, whether the proposed NAS might create a self-review threat.
7. In making this determination, the firm must evaluate whether there is a risk that:
 - The results of the NAS will form part of or affect the accounting records, internal controls over financial reporting or the financial statements on which the firm will express an opinion or conclusion; and
 - In the course of the audit, the audit team will evaluate or rely on any judgements made or activities performed by the firm or network firm when providing the service. (**R600.14**)
8. The IESBA has determined that, if a self-review threat might arise and the audit client is a PIE, provision of that NAS is prohibited. The provision of a NAS is prohibited once a firm identifies that a self-review threat might be created, as opposed to where that firm concludes that a self-review threat will in fact be created. Materiality is not a factor to be considered in determining whether the provision of a NAS might create a self-review threat. If a self-review threat might be created, provision of that NAS is prohibited if the audit client is a PIE.
9. The self-review prohibition does not apply to audit clients that are not PIEs. Firms and network firms can continue providing NAS to audit clients that are non-PIEs provided that any identified self-review threat is reduced to an acceptable level in accordance with the conceptual framework.
10. Dr. Stavros Thomadakis, IESBA Chair, sums up the changes:

The new standard is efficient, stringent and objective. It is efficient because with one principles-based prohibition it in fact prevents the provision of a whole set of NAS to audit clients. It is stringent because it eliminates not simply all NAS that give rise to a self-review threat [for PIEs] but all NAS that might give rise to a self-review threat, i.e., not just the fact but even the mere possibility of a self-review threat occurring. It is objective because, as specified in the revision, the prohibition does not depend on a materiality threshold. So, it is not a matter of judgement whether the prohibition will bite or not. It will bite for PIEs.⁴

⁴ [Independence beyond Rules: Farsighted Approaches to Global Challenges; A speech by Dr. Stavros Thomadakis | IFAC \(ethicsboard.org\) \(emphasis added\).](#)

Independence in appearance

11. Independence in appearance is a critical factor for a firm to consider before agreeing to provide a NAS to any audit client (irrespective of whether the client is a PIE). A lack of independence in appearance undermines public confidence and impacts confidence in financial reporting, the audit, and the audit function.
12. Research undertaken and commissioned by the IESBA indicated that the biggest threat to independence (particularly independence in appearance) arising from the provision of NAS, related to the self-review threat.
13. The perception of a lack of independence can arise both from within the audit client (especially from those charged with governance) and from investors, users and other stakeholders.
14. Therefore, before accepting an engagement to provide a NAS to an audit client, the firm must apply the conceptual framework to identify, evaluate and address **any** threat to independence that might be created by providing that service.
15. For PIE audit clients, if the NAS might create a self-review threat, it is prohibited.
16. For NAS engagements that are not prohibited:
 - The firm is required to communicate with those charged with governance of the PIE before the firm or network firm provides NAS to entities within the corporate structure of which the PIE forms part. The purpose of the communication is to enable those charged with governance of the PIE to have effective oversight of the independence of the firm that audits the financial statements of that PIE. (600.20 A1)
 - The firm must obtain the agreement of those charged with governance that the provision of the service:
 - will not create a threat to the firm's independence as auditor of the PIE; or
 - that any identified threat is at an acceptable level or, if it is not, that it will be eliminated or reduced to an acceptable level. (**R600.22**)

New Zealand perspective

17. A key strategic objective set by the XRB Board for the NZAuASB is to adopt international auditing and assurance standards, including professional and ethical standards, in New Zealand. Modifications for application in New Zealand may be acceptable where there is a compelling reason, provided such modifications consider the public interest in New Zealand and do not conflict with or result in lesser requirements than the international standards.
18. The NZAuASB is of the view that the revised IESBA provisions substantially raise the bar on prohibiting the provision of NAS. The NZAuASB proposes to adopt the revised standard in New Zealand.

19. There is already evidence in New Zealand that the level of NAS compared to audit services is relatively low for audit clients that are PIEs⁵. However, the NZAuASB remains concerned about the effect on the perception of the auditor's independence and the associated impact on trust in financial reporting that provision of NAS creates, regardless of their extent, both at an engagement level, and as a proportion of total fees charged by audit firms in New Zealand. This is especially the case in relation to tax-related NAS. The NZAuASB is also aware of regulatory concern in these areas.
20. XRB staff undertook a survey⁶ in April 2021, to gain a better understanding of the impact of the provision of NAS on users' perceptions of the auditor's independence. The survey results indicated that the provision of NAS by the auditor to their client has some negative effect for nearly all types of NAS provided. Tax-related NAS tend to have an especially negative effect on users' perceptions.
21. The NZAuASB also consulted the XRB's advisory panel (the External Reporting Advisory Panel). It received feedback, particularly from the governance members of the panel that, while external perceptions are important, it is also important not to exclude the possibility of the entity deriving benefit from additional services that are best provided by the auditor without compromising the firm's independence.
22. The NZAuASB has considered these different perspectives. It has formed the view that, as well as adopting the IESBA provisions, including the requirement for approval by those charged with governance in the case of NAS, it should:
 - Strengthen the position in relation to the provision of tax advisory and tax planning services to an audit client that is a PIE. The NZAuASB proposes that the provision of such services should be prohibited. (**NZ R604.15** -NZ 604.15 A1).
 - Include, as an example of a tax advisory or tax planning services, advising an audit client in its tax return preparation, or any adjustments arising therefrom (NZ 604.11 A1). As such, consistent with the addition of **NZ R604.15**, such services would be prohibited for PIEs.
 - Acknowledge that there may be benefits in the auditor performing certain audit-related services. These types of services generally will not create a self-review threat to independence, although other threats may be created. The firm will have to apply the conceptual framework to identify such other threats, and then to evaluate and address them. (NZ 600.14 A1)
23. In the ED, New Zealand paragraphs are numbered with the prefix NZ. New Zealand additions are shown with underline and deletions are shown with double strikethrough.

⁵ The FMA's [Audit Quality Monitoring Report](#) indicates the proportion of fees charged by audit firms related to non-assurance services is 16%.

⁶ The survey results are available with the [April 2021 NZAuASB Board](#) papers on the XRB website.

Interaction with Other IESBA Workstreams

24. The NAS project was undertaken concurrently with [revisions to the fees-related provisions of the Code](#). The fees revisions strengthen the independence requirements for firms with respect to fees paid by an audit client. In the case of audit clients that are PIEs, the revised fee provisions provide for the disclosure of fee-related information to those charged with governance and to the public, including in relation to NAS. Additionally, in New Zealand, the New Zealand Accounting Standards Board has an ongoing project jointly with the Australian Accounting Standards Board to improve disclosures of fees paid to the entity's auditor.
25. The NZAuASB expects to adopt the revised IESBA fee provisions in New Zealand at a later date, with a cross reference to the New Zealand disclosure requirements.
26. In addition, the IESBA has recently sought feedback in relation to [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity](#). While the definition of a PIE is not part of this exposure, it has obvious implications for the scope of permissible NAS in New Zealand. The NZAuASB will soon be consulting on the NZ PIE definition, as the IESBA project advances.

Australian perspective

27. The NZAuASB has also been conscious of the recent inquiry into audit quality by the Parliamentary Joint Committee on Corporations and Financial Services in Australia. The inquiry considered the adequacy of the independence standards for audit firms in Australia, including in relation to NAS. The final report of the Committee⁷ recommended:
 - Revising the APES 110 Code of Ethics to include a safeguard that no audit partner can be incentivised, through remuneration advancement or any other means or practice, for selling non-audit services to an audited entity.
 - Development and introduction of defined categories and associated fee disclosure requirements in relation to audit and non-audit services.
 - A list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity.
28. The recommendations are relevant to, and form part of the Accounting Professional & Ethical Standards Board's (APESB's) consideration of the adoption of the IESBA NAS provisions.
29. As at the date of this ITC, the Australian Government has yet to respond to the Committee's recommendations. The NZAuASB is continuing to liaise closely with the APESB on this matter.

⁷ [Regulation of Auditing in Australia: Final Report](#)

2. NZ Proposed Changes

2.1 Tax Advisory and Tax Planning Services

30. The IESBA Code recognises that providing tax advisory and tax planning services to an audit client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion (604.12 A1).
31. However, the IESBA Code goes on to state that providing tax advisory and tax planning services will not create a self-review threat if such services:
 - (a) are supported by a tax authority or other precedent;
 - (b) are based on an established practice; or
 - (c) have a basis in tax law that the firm is confident is *likely to prevail* (604.12 A2).
32. The NZAuASB is concerned that the wording "*likely to prevail*" is subjective and sets the bar too low. Moreover, it is difficult to argue that the results of any tax advice or tax planning will not ultimately affect the financial statements through the tax calculation. As such, there will always be a risk that the provision of tax advisory and tax planning services might create a self-review threat.
33. Advocacy threats might also be created when the firm provides tax advisory and tax planning services. The NZAuASB's view is that advocating for an audit client that is a PIE creates a threat to independence that cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.
34. The NZAuASB has also considered the meaning of "tax advisory" and "tax planning" services. The IESBA has provided examples of such services, which include advising the audit client how to structure its affairs in a tax efficient manner or advising on the application of a tax law or regulation. The NZAuASB is of the view that advising an audit client in its tax return preparation, or any adjustments arising therefrom, also constitutes a tax advisory service. The NZAuASB proposes therefore to clarify PES 1 in this respect by adding tax return preparation as an example in paragraph 604.11 A1. The NZAuASB expects that the clarification will drive consistency in the application of the provisions.
35. The NZAuASB has also considered the results of the NZ user survey⁸ when developing these proposals. As noted earlier, the provision of tax advisory and tax planning services had a high negative impact on users' perceptions of the auditor's independence.
36. In order to enhance trust and confidence in audit in New Zealand, the NZAuASB therefore proposes to make additional changes to the IESBA Code to:

⁸ The survey results are available with the [April 2021 NZAuASB Board papers](#) on the XRB website.

- Prohibit the provision of tax advisory and tax planning services to an audit client that is a PIE (**NZ R604.15** -NZ 604.15 A1).
- Include, as an example of tax advisory and tax planning services, advising an audit client in its tax return preparation or any adjustments arising therefrom (NZ 604.11 A1). As such, consistent with the addition of **NZ R604.15** such services would be prohibited for PIEs.

Questions for Respondents

1. Do you agree that the provision of tax advisory and tax planning services to an audit client that is a PIE should be prohibited? (Refer **NZ R604.15** – NZ 604.15 A1)
2. Do you foresee any unintended consequences of this prohibition?
3. Do you agree that advising an audit client in their tax return preparation or any adjustments arising therefrom is a form of tax advisory service? As such, consistent with the addition of **NZ R604.15** such services would be prohibited for PIEs. (Refer NZ 604.11 A1)

Any other non-assurance services

4. The NZAuASB has not identified any further aspects of the IESBA’s provisions that need to be strengthened in New Zealand. We are, however, keen to hear whether stakeholders consider there is a need to further strengthen any specific provisions.

2.2 Audit-Related Services

37. The NZAuASB agrees that, in some cases, there may be benefits to an entity (in terms of both efficiency and audit quality) in the auditor performing certain limited services in addition to the audit engagement.
38. To address this point, the NZAuASB sees merit in providing guidance in PES 1 to describe, for both firms and clients (especially those charged with governance), the types of additional audit-related services that the firm may often be best placed to perform. It does not, however, propose to limit additional services to a predefined list.
39. The proposed guidance is in the form of application material acknowledging that additional work performed by the firm that is related to, or that enhances the quality of, an audit engagement will generally not create a self-review threat to independence; together with examples of such work. (Refer NZ600 14 A1)
40. It is important to emphasise that, before accepting any audit-related NAS, the firm must still consider the conceptual framework to identify, evaluate and address threats to independence. Identified threats must be eliminated, or safeguards applied to reduce them to an acceptable level. If the audit client is a PIE and there is a risk that the service might create a self-review threat, that service will be prohibited.

41. In addition, as described Section 1.1, if the entity is a PIE the firm must communicate with those charged with governance before accepting the NAS engagement and obtain their agreement that:
- the provision of the service will not create a threat to the firm’s independence, or
 - any identified threat is at, or will be eliminated or reduced to an acceptable level.
42. The NZAuASB is of the view that the combination of the NZ changes it is proposing to enhance the strengthened IESBA provisions, together with the additional guidance on audit-related services, will enhance trust and confidence in audit while retaining a principles-based approach.
43. In the public sector, the [Auditor-General’s revised Code of Ethics](#)⁹ issued in 2020 sets limits on the provision of additional work, over and above the work that is required or permitted to be carried out on behalf of the Auditor-General. Such work is limited to “work of an assurance nature”. That is said to include:
- engagements that involve the formal expression of an opinion;
 - agreed-upon procedures engagements;
 - real-time independent quality assurance;
 - probity engagements; and
 - activities involving the examination, investigation or inquiry into matters of concern.

All other types of NAS engagement are effectively prohibited.

44. Although the NZAuASB is not proposing to limit additional services to a predefined list, the NZAuASB considers that the proposed approach will achieve a broadly consistent approach with that of the Auditor-General’s standard.

Questions for Respondents

5. Do you agree that services performed by the audit firm will generally not create a self-review threat to the firm’s independence when the services are related to the audit engagement?
6. Do you agree that the examples listed would not generally create a self-review threat to independence? Are there other types of services, that would generally not create a self-review threat to independence, that you consider need to be included as examples? (Refer NZ 600.14 A1)
7. Do you agree that the additional application material emphasising the need to apply the conceptual framework to identify, evaluate and address threats to

independence, other than the self-review threat, is helpful to ensure diligent application of the conceptual framework? (Refer NZ 600.14 A1)

8. Do you consider additional requirements or application material is needed in relation to audit-related services, to address perceptions of auditor independence? If yes, please provide details.

2.3 Effective Date

45. In line with the IESBA revisions, proposed revised Section 600 and the conforming amendments to Part 4A will be effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022.
46. The conforming and consequential amendments to Sections 900 and 950 in relation to assurance engagements with respect to underlying subject matters covering periods of time will be effective for periods beginning on or after 15 December 2022; otherwise these amendments will be effective on 15 December 2022.
47. Early adoption will be permitted.
48. For non-assurance services engagements a firm or network firm has entered into with an audit client, or for non-assurance services engagements a firm has entered into with an assurance client before 15 December 2022 and for which work has already commenced, the firm or a network firm may continue such engagements under the extant provisions of Professional and Ethical Standard 1 until completed in accordance with the original engagement terms.

2.4 Timeline and next steps

49. Submissions on ED NZAuASB 2021-4 are due by [Date] 2021. Information on how to make a submission is provided on page 4 of this ITC.
50. After the consultation period ends, we will consider the submissions received, and subject to the comments in those submissions, we expect to finalise and issue the New Zealand revisions by the end of the year.

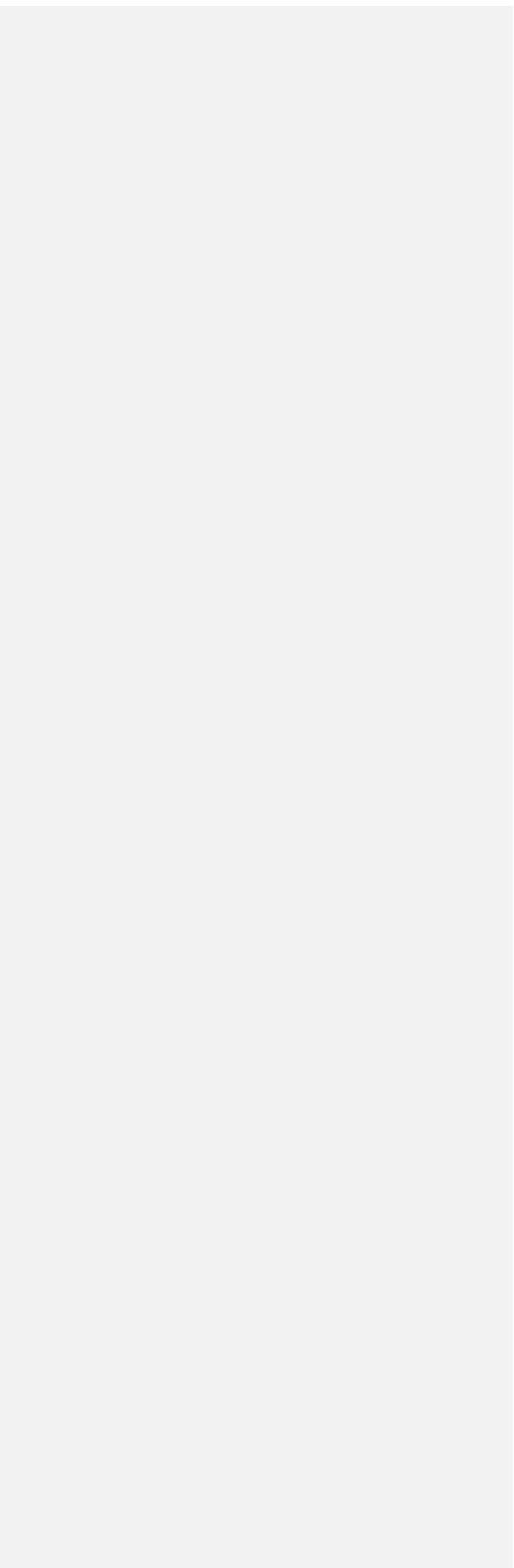
PROPOSED REVISIONS TO THE NON-ASSURANCE SERVICES PROVISIONS OF PROFESSIONAL AND ETHICAL STANDARD 1

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This document includes the proposed revisions to Professional and Ethical Standard 1 arising from the IESBA’s Non-Assurance Services Project. Comments in the margin indicate the paragraph from the extant NAS provisions from which the particular paragraph is derived (based on the IESBA Code), or whether it is a new paragraph. Paragraphs that are shaded in grey are provided for context.

DRAFT



The NZAuASB proposes to adopt the IESBA proposals as drafted, with New Zealand compelling reason changes. New Zealand paragraphs are numbered with the prefix NZ. NZ additions are shown using underline and deletions are shown with double strikethrough.

I. Proposed Revised Section 600

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

...

Section 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT OR REVIEW CLIENT

Introduction

600.1 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.

Commented [1]:
600.1

600.2 Firms and network firms might provide a range of non-assurance services to their audit or review clients, consistent with their skills and expertise. Providing non-assurance services to audit or review clients might create threats to compliance with the fundamental principles and threats to independence.

Commented [2]:
600.2

600.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to audit or review clients. The subsections that follow set out specific requirements and application material that are relevant when a firm or a network firm provides certain types of non-assurance services to audit or review clients and indicate the types of threats that might be created as a result.

Commented [3]:
600.3

600.4 Some subsections include requirements that expressly prohibit a firm or a network firm from providing certain services to an audit or review client because the threats created cannot be eliminated and safeguards are not capable of being applied to reduce the threats to an acceptable level.

600.5 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms and network firms might provide to an audit or review client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.

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600.4 A2

Requirements and Application Material

General

Non-Assurance Services Provisions in Laws or Regulations

600.6 A1 Paragraphs R100.6 to 100.7 A1 set out requirements and application material relating to compliance with the Code. If there are laws and regulations in a jurisdiction relating to the provision of non-assurance services to audit or review clients that differ from or go beyond those set out in this section, firms providing non-assurance services to which such provisions apply need to be aware of those differences and comply with the more stringent provisions.

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Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service

600.7 A1 When a firm or a network firm provides a non-assurance service to an audit or review client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R400.14 have been complied with.

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600.7 A4

Accepting an Engagement to Provide a Non-Assurance Service

R600.8 Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit or review client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

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R600.4

Identifying and Evaluating Threats

All Audit Clients

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

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600.9 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit client, and evaluating the level of such threats include:

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600.5 A1

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgement. (Ref: Para. R400.13 to R400.14).
- Whether the outcome of the service will affect the accounting records or matters reflected in the financial statements on which the firm will express an opinion or conclusion, and, if so:

- 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 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 or conclusion.
 - Internal controls over financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit or review.
- The fee relating to the provision of the non-assurance service.

600.9 A3 Subsections 601 to 610 include examples of additional factors that are relevant in identifying threats to independence created by providing certain non-assurance services, and evaluating the level of such threats.

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Materiality in relation to financial statements

600.10 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an audit or review client. Subsections 601 to 610 refer to materiality in relation to an audit or review client's financial statements. The concept of materiality in relation to an audit is addressed in ISA(NZ) 320, *Materiality in Planning and Performing an Audit*, and in relation to a review in ISRE (NZ) 2400 (Revised), *Engagements to Review Historical Financial Statements*. The determination of materiality involves the exercise of professional judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

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600.5 A3

600.10 A2 Where the Code expressly prohibits the provision of a non-assurance service to an audit client, a firm or a network firm is not permitted to provide that service, regardless of the materiality of the outcome or results of the non-assurance service on the financial statements on which the firm will express an opinion or conclusion.

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Providing advice and recommendations

600.11 A1 Providing advice and recommendations might create a self-review threat. Whether providing advice and recommendations creates a self-review threat involves making the determination set out in paragraph R600.14. Where the audit or review client is not a public interest entity and a self-review threat is identified, the firm is required to apply the conceptual framework to

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evaluate and address the threat. If the audit or review client is a public interest entity, paragraphs R600.16 and R600.17 apply. |

Multiple non-assurance services provided to the same audit or review client

R600.12 When a firm or a network firm provides multiple non-assurance services to an audit or review client, the firm shall consider whether, in addition to the threats created by each service individually, the combined effect of such services creates or impacts threats to independence.

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600.12 A1 In addition to paragraph 600.9 A2, factors that are relevant in a firm's evaluation of the level of threats to independence created where multiple non-assurance services are provided to an audit or review client might include whether:

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- The combined effect of providing multiple services increases the level of threat created by each service assessed individually.
- The combined effect of providing multiple services increases the level of any threat arising from the overall relationship with the audit or review client.

Self-review threats

600.13 A1 When a firm or a network firm provides a non-assurance service to an audit or review client, there might be a risk of the firm auditing or reviewing its own or the network firm's work, thereby giving rise to a self-review threat. A self-review threat is the threat that a firm or a network firm will not appropriately evaluate the results of a previous judgement made or an activity performed by an individual within the firm or network firm as part of a non-assurance service on which the audit or review team will rely when forming a judgement as part of an audit or review.

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R600.14 Before providing a non-assurance service to an audit or review client, a firm or a network firm shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:

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- (a) The results of the service will form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion or conclusion; and
- (b) In the course of the audit or review of those financial statements on which the firm will express an opinion or conclusion, the audit or review team will evaluate or rely on any judgements made or activities performed by the firm or network firm when providing the service.

NZ 600.14 A1 Additional work performed by the firm will not generally create a self-review threat to independence when such work is related to the audit or review engagement. Examples of audit or review related engagements include:

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- Engagements required by law or regulation to be performed by the auditor or assurance practitioner.
- Engagements that involve the formal expression of an assurance opinion or conclusion.
- Engagements to perform agreed-upon procedures.

However, providing such additional services might create one or more other threats, as noted in paragraph 120.6 A4. In such circumstances, the firm is required to apply the conceptual framework to identify, evaluate and address the threats to independence.

Audit or Review Clients that are Public Interest Entities

600.15 A1 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. These heightened expectations are relevant to the reasonable and informed third party test used to evaluate a self-review threat created by providing a non-assurance service to an audit client that is a public interest entity.

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600.15 A2 Where the provision of a non-assurance service to an audit client that is a public interest entity creates a self-review threat, that threat cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

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Self-review threats

R600.16 A firm or a network firm shall not provide a non-assurance service to an audit or review client that is a public interest entity if the provision of that service might create a self-review threat in relation to the audit or review of the financial statements on which the firm will express an opinion or a conclusion. (Ref: Para. 600.13 A1 and R600.14).

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Providing advice and recommendations

R600.17 As an exception to paragraph R600.16, a firm or a network firm may provide advice and recommendations to an audit or review client that is a public interest entity in relation to information or matters arising in the course of an audit or review provided that the firm:

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- (a) Does not assume a management responsibility (Ref: Para. R400.13 and R400.14); and
- (b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

600.17 A1 Examples of advice and recommendations that might be provided in relation to information or matters arising in the course of an audit or review include:

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601.3 A3

- Advising on accounting and financial reporting standards or policies and financial statement disclosure requirements.
- Advising on the appropriateness of financial and accounting control and the methods used in determining the stated amounts in the financial statements and related disclosures.
- Proposing adjusting journal entries arising from audit or review findings.
- Discussing findings on internal controls over financial reporting and processes and recommending improvements.
- Discussing how to resolve account reconciliation problems.
- Advising on compliance with group accounting policies.

Addressing Threats

All Audit or Review Clients

600.18 A1 Paragraphs R120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

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600.6 A1, 600.6 A3

600.18 A2 Threats to independence created by providing a non-assurance service or multiple services to an audit client vary depending on the facts and circumstances of the audit or review engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

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600.18 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not audit or review team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed.
- Obtaining pre-clearance of the outcome of the service from an appropriate authority (for example, a tax authority).

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600.18 A4 Safeguards might not be available to reduce the threats created by providing a non-assurance service to an audit or review client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm or network firm to:

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- (a) Adjust the scope of the proposed service to eliminate the circumstances that are creating the threats;
- (b) Decline or end the service that creates the threats that cannot be eliminated or reduced to an acceptable level; or
- (c) End the audit or review engagement.

Communication with Those Charged With Governance Regarding Non-Assurance Services

All Audit or Review Clients

600.19 A1 Paragraphs 400.40 A1 and 400.40 A2 are relevant to a firm's communication with those charged with governance in relation to the provision of non-assurance services.

Audit or Review Clients that are Public Interest Entities

600.20 A1 Paragraphs R600.21 to R600.23 require a firm to communicate with those charged with governance of a public interest entity before the firm or network firm provides non-assurance services to entities within the corporate structure of which the public interest entity forms part that might create threats to the firm's independence from the public interest entity. The purpose of the communication is to enable those charged with governance of the public interest entity to have effective oversight of the independence of the firm that audits the financial statements of that public interest entity.

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600.20 A2 To facilitate compliance with such requirements, a firm might agree with those charged with governance of the public interest entity a process that addresses when and with whom the firm is to communicate. Such a process might:

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- Establish the procedure for the provision of information about a proposed non-assurance service which might be on an individual engagement basis, under a general policy, or on any other agreed basis.
- Identify the entities to which the process would apply, which might include other public interest entities within the corporate structure.
- Identify any services that can be provided to the entities identified in paragraph R600.21 without specific approval of those charged with governance if they agree as a general policy that these services are not prohibited under this section and would not create threats to the firm's independence or, if any such threats are created, they would be at an acceptable level.
- Establish how those charged with governance of multiple public interest entities within the same corporate structure have determined that authority for approving services is to be allocated.
- Establish a procedure to be followed where the provision of information necessary for those charged with governance to evaluate whether a proposed service might create a threat to the firm's independence is prohibited or limited by professional standards, laws or regulations, or might result in the disclosure of sensitive or confidential information.
- Specify how any issues not covered by the process might be resolved.

R600.21 Before a firm that audits or reviews the financial statements of a public interest entity, or a network firm accepts an engagement to provide a non-assurance service to:

- (A) That public interest entity;
- (B) Any entity that controls, directly or indirectly, that public interest entity; or
- (C) Any entity that is controlled directly or indirectly by that public interest entity,

the firm shall, unless already addressed when establishing a process agreed with those charged with governance:

- (a) Inform those charged with governance of the public interest entity that the firm has determined that the provision of the service:
 - (i) Is not prohibited; and
 - (ii) Will not create a threat to the firm's independence as auditor or assurance practitioner of the public interest entity or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
- (b) Provide those charged with governance of the public interest entity with information to enable them to make an informed assessment about the impact of the provision of the service on the firm's independence.

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600.21 A1 Examples of information that might be provided to those charged with governance of the public interest entity in relation to a particular non-assurance service include:

- The nature and scope of the service to be provided.
- The basis and amount of the proposed fee.
- Where the firm has identified any threats to independence that might be created by the provision of the proposed service, the basis for the firm's assessment that the threats are at an acceptable level or, if not, the actions the firm or network firm will take to eliminate or reduce any threats to independence to an acceptable level.
- Whether the combined effect of providing multiple services creates threats to independence or changes the level of previously identified threats.

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R600.22 A firm or a network firm shall not provide a non-assurance service to any of the entities referred to in paragraph R600.21 unless those charged with governance of the public interest entity have concurred either under a process agreed with those charged with governance or in relation to a specific service with:

- (a) The firm's conclusion that the provision of the service will not create a threat to the firm's independence as auditor or assurance practitioner of the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated, or reduced to an acceptable level; and
- (b) The provision of that service.

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New paragraph

R600.23 As an exception to paragraphs R600.21 and R600.22, where a firm is prohibited by applicable professional standards, laws or regulations from providing information about the proposed non-assurance service to those charged with governance of the public interest entity, or where the provision of such information would result in disclosure of sensitive or confidential information, the firm may provide the proposed service provided that:

- (a) The firm provides such information as it is able without breaching its legal or professional obligations;
- (b) The firm informs those charged with governance of the public interest entity that the provision of the service will not create a threat to the firm's independence from the public interest entity, or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level; and
- (c) Those charged with governance do not disagree with the firm's conclusion in (b).

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R600.24 The firm or the network firm, having taken into account any matters raised by those charged with governance of the audit or review client that is a public interest entity or by the entity referred to in paragraph R600.21 that is the recipient of the proposed service, shall decline the non-assurance service or the firm shall end the audit or review engagement if:

- (a) The firm or the network firm is not permitted to provide any information to those charged with governance of the audit or review client that is a public interest entity, unless such a situation is addressed in a process agreed in advance with those charged with governance; or
- (b) Those charged with governance of an audit or review client that is a public interest entity disagree with the firm's conclusion that the provision of the service will not create a threat

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to the firm's independence from the client or that any identified threat is at an acceptable level or, if not, will be eliminated or reduced to an acceptable level.

Audit or Review Client that Later Becomes a Public Interest Entity

R600.25 A non-assurance service provided, either currently or previously, by a firm or a network firm to an audit or review client compromises the firm's independence when the client becomes a public interest entity unless:

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- (a) The previous non-assurance service complies with the provisions of this section that relate to audit or review clients that are not public interest entities;
- (b) Non-assurance services currently in progress that are not permitted under this section for audit or review clients that are public interest entities are ended before or, if that is not possible, as soon as practicable after, the client becomes a public interest entity; and
- (c) The firm and those charged with governance of the client that becomes a public interest entity agree and take further actions to address any threats to independence that are not at an acceptable level.

600.25 A1 Examples of actions that the firm might recommend to the audit or review client include engaging another firm to:

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- Review or re-perform the affected audit or review work to the extent necessary.
- Evaluate the results of the non-assurance service or re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

Considerations for Certain Related Entities

R600.26 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit or review clients. As an exception to those requirements and the requirement in paragraph R400.13, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion or conclusion:

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- (a) An entity that has direct or indirect control over the client;
- (b) An entity with 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 under common control with the client,
provided that all of the following conditions are met:
 - (i) The firm or a network firm does not express an opinion or conclusion on the financial statements of the related entity;
 - (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion or conclusion;

- (iii) The services do not create a self-review threat; and
- (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

Documentation

600.27 A1 Documentation of the firm's conclusions regarding compliance with this section in accordance with paragraphs R400.60 and 400.60 A1 might include:

- Key elements of the firm's understanding of the nature of the non-assurance service to be provided and whether and how the service might impact the financial statements on which the firm will express an opinion or conclusion.
- The nature of any threat to independence that is created by providing the service to the audit or review client, including whether the results of the service will be subject to audit or review procedures.
- The extent of management's involvement in the provision and oversight of the proposed non-assurance service.
- Any safeguards that are applied, or other actions taken to address a threat to independence.
- The firm's rationale for determining that the service is not prohibited and that any identified threat to independence is at an acceptable level.
- In relation to the provision of a proposed non-assurance service to the entities referred to in paragraph R600.21, the steps taken to comply with paragraphs R600.21 to R600.23.

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SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

Introduction

601.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing accounting and bookkeeping services to an audit or review client.

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Requirements and Application Material

General

601.2 A1 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

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- Determining accounting policies and the accounting treatment in accordance with 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.

- Customer orders.
- Originating or changing journal entries.
- Determining or approving the account classifications of transactions.

Description of Service

601.3 A1 Accounting and bookkeeping services comprise a broad range of services including:

- Preparing accounting records or financial statements.
- Recording transactions.
- Providing payroll services.
- Resolving account reconciliation problems.
- Converting existing financial statements from one financial reporting framework to another.

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601.3 A1

Potential Threats Arising from the Provision of Accounting and Bookkeeping Services

All Audit or Review Clients

601.4 A1 Providing accounting and bookkeeping services to an audit or review client creates a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion or conclusion.

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Audit or Review Clients that are Not Public Interest Entities

R601.5 A firm or a network firm shall not provide to an audit or review client that is not a public interest entity accounting and bookkeeping services, including preparing financial statements on which the firm will express an opinion or conclusion or financial information which forms the basis of such financial statements, unless:

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R601.5

- (a) The services are of a routine or mechanical nature; and
- (b) The firm addresses any threats that are not at an acceptable level.

601.5 A1 Accounting and bookkeeping services that are routine or mechanical:

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- (a) Involve information, data or material in relation to which the client has made any judgements or decisions that might be necessary; and
- (b) Require little or no professional judgement.

601.5 A2 Examples of services that might be regarded as routine or mechanical include:

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601.4 A1

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

The firm or a network firm may provide such services to audit or review clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.14 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5 (b).

601.5 A3 Examples of actions that might be safeguards to address a self-review threat created when providing accounting and bookkeeping services of a routine or mechanical nature to an audit or review client that is not a public interest entity include:

- Using professionals who are not audit or review team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed.

Audit or Review Clients that are Public Interest Entities

R601.6 A firm or a network firm shall not provide accounting and bookkeeping services to an audit or review client that is a public interest entity.

R601.7 As an exception to paragraph R601.6, a firm or a network firm may prepare statutory financial statements for a related entity of a public interest entity audit or review client included in subparagraph (c) or (d) of the definition of a related entity provided that:

- The audit or review report on the group financial statements of the public interest entity has been issued;
- The firm or network firm does not assume management responsibility and applies the conceptual framework to identify, evaluate and address threats to independence;
- The firm or network firm does not prepare the accounting records underlying the statutory financial statements of the related entity and those financial statements are based on client approved information; and
- The statutory financial statements of the related entity will not form the basis of future group financial statements of that public interest entity.

SUBSECTION 602 – ADMINISTRATIVE SERVICES

Introduction

602.1 In addition to the specific application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing administrative services.

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R601.6

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Application Material

Description of Service

602.2 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations.

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602.3 A1

602.2 A2 Examples of administrative services include:

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602.3 A2

- Word processing or document formatting.
- Preparing administrative or statutory forms for client approval.
- Submitting such forms as instructed by the client.
- Monitoring statutory filing dates and advising an audit or review client of those dates.

Potential Threats Arising from the Provision of Administrative Services

All Audit or Review Clients

602.3 A1 Providing administrative services to an audit or review client does not usually create a threat when such services are clerical in nature and require little to no professional judgement.

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602.1

SUBSECTION 603 – VALUATION SERVICES

Introduction

603.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing valuation services to an audit or review client.

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Requirements and Application Material

Description of Service

603.2 A1 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 the whole or part of an entity.

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603.3 A1

603.2 A2 If a firm or a network firm is requested to perform a valuation to assist an audit or review client with its tax reporting obligations or for tax planning purposes and the results of the valuation have no effect on the accounting records or the financial statements other than through accounting entries related to tax, the requirements and application material set out in paragraphs 604.17 A1 to 604.19 A1, relating to such services, apply.

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Potential Threats Arising from the Provision of Valuation Services

All Audit or Review Clients

603.3 A1 Providing a valuation service to an audit or review client might create a self-review threat when there is a risk that the results of the service will affect the accounting records or the financial

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603.1

statements on which the firm will express an opinion or conclusion. Such a service might also create an advocacy threat.

603.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing valuation services to an audit or review client, and evaluating the level of such threats include:

- The use and purpose of the valuation report.
- Whether the valuation report will be made public.
- The extent to which the valuation methodology is supported by law or regulation, other precedent or established practice.
- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgement.
- 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 of the disclosures related to the valuation in the financial statements.
- The volatility of the amounts involved as a result of dependence on future events.

When a self-review threat for an audit or review client that is a public interest entity has been identified, paragraph R603.5 applies.

Audit or Review Clients that are Not Public Interest Entities

603.3 A3 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing a valuation service to an audit or review client that is not a public interest entity include:

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed might address a self-review threat.

R603.4 A firm or a network firm shall not provide a valuation service to an audit or review client that is not a public interest entity if:

- (a) The valuation involves a significant degree of subjectivity; and
- (b) The valuation will have a material effect on the financial statements on which the firm will express an opinion or conclusion.

603.4 A1 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are established by law or regulation or 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.

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603.3 A3

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603.3 A4

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R603.4

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603.4 A1

Audit or Review Clients that are Public Interest Entities

Self-review Threats

R603.5 A firm or a network firm shall not provide a valuation service to an audit or review client that is a public interest entity if the provision of such valuation service might create a self-review threat. (Ref: Para. R600.14 and R600.16).

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R603.5

Advocacy Threats

603.5 A1 An example of an action that might be a safeguard to address an advocacy threat created by providing a valuation service to an audit or review client that is a public interest entity is using professionals who are not audit or review team members to perform the service.

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SUBSECTION 604 – TAX SERVICES

Introduction

604.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a tax service to an audit or review client.

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604.2

Requirements and Application Material

Description of Service

604.2 A1 Tax services comprise a broad range of services. This subsection deals specifically with:

- Tax return preparation.
- Tax calculations for the purpose of preparing accounting entries.
- Tax advisory services.
- Tax planning services.
- Tax services involving valuations.
- Assistance in the resolution of tax disputes.

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604.3 A1

604.2 A2 It is possible to consider tax services under broad headings, such as tax planning or compliance. However, such services are often interrelated in practice and might be combined with other types of non-assurance services provided by the firm such as corporate finance services. It is, therefore, impracticable to categorise generically the threats to which specific tax services give rise.

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New paragraph

Potential Threats Arising from the Provision of Tax Services

604.3 A1 Providing tax services to an audit or review client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion or conclusion. Such services might also create an advocacy threat.

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604.1

604.3 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing any tax service to an audit or review client, and evaluating the level of such threats include:

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604.3 A2

- 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 or network firm in that process.
- The complexity of the relevant tax regime and the degree of judgement necessary in applying it.

All Audit or Review Clients

R604.4 A firm or a network firm shall not provide a tax service or recommend a transaction to an audit or review client if the service or transaction relates to marketing, planning, or opining in favour of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.

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New paragraph

604.4 A1 Unless the tax treatment has a basis in applicable tax law or regulation that the firm is confident is likely to prevail, providing the non-assurance service described in paragraph R604.4 creates self-interest, self-review and advocacy threats that cannot be eliminated and safeguards are not capable of being applied to reduce such threats to an acceptable level.

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New paragraph

A. Tax Return Preparation

Description of Service

604.5 A1 Tax return preparation services include:

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardised forms) required to be submitted to the applicable tax authorities.
- Advising on the tax return treatment of past transactions.
- Responding on behalf of the audit or review client to the tax authorities' requests for additional information and analysis (for example, providing explanations of and technical support for the approach being taken).

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604.4 A2

Potential Threats Arising from the Provision of Tax Return Preparation Services

All Audit or Review Clients

604.6 A1 Providing tax return preparation services does not usually create a threat because:

- (a) Tax return preparation services are based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice; and
- (b) Tax returns are subject to whatever review or approval process the tax authority considers appropriate.

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604.4 A1, 604.4 A3

B. Tax Calculations for the Purpose of Preparing Accounting Entries

Description of Service

604.7 A1 Tax calculation services involves the preparation of calculations of current and deferred tax liabilities or assets for the purpose of preparing accounting entries supporting tax assets or liabilities in the financial statements of the audit or review client.

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New paragraph

Potential Threats Arising from the Provision of Tax Calculation Services

All Audit or Review Clients

604.8 A1 Preparing tax calculations of current and deferred tax liabilities (or assets) for an audit or review client for the purpose of preparing accounting entries that support such balances creates a self-review threat.

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604.5 A1

Audit or Review Clients that are Not Public Interest Entities

604.9 A1 In addition to the factors in paragraph 604.3 A2, a factor that is relevant in evaluating the level of self-review threat created when preparing such calculations for an audit or review client is whether the calculation might have a material effect on the financial statements on which the firm will express an opinion or conclusion.

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604.5 A2

604.9 A2 Examples of actions that might be safeguards to address such a self-review threat when the audit or review client is not a public interest entity include:

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604.5 A3

- Using professionals who are not audit or review team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed.

Audit or Review Clients that are Public Interest Entities

R604.10 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit or review client that is a public interest entity. (Ref: Para. R600.14 and R600.16).

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R604.6

C. Tax Advisory and Tax Planning Services

Description of Service

604.11 A1 ~~Tax advisory and tax planning services comprise a broad range of services, such as advising the audit client how to structure its affairs in a tax efficient manner or advising on the application of a tax law or regulation. [Amended by the NZAuASB]~~

NZ 604.11 A1 Tax advisory and tax planning services comprise a broad range of services, such as advising the audit or review client how to structure its affairs in a tax efficient manner, advising on the application of a tax law or regulation, or advising an audit or review client in their tax return preparation or any adjustments arising therefrom.

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604.7 A2

Potential Threats Arising from the Provision of Tax Advisory and Tax Planning Services

All Audit or Review Clients

604.12 A1 Providing tax advisory and tax planning services to an audit or review client might create a self-review threat when there is a risk that the results of the services will affect the accounting

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604.7 A1

records or the financial statements on which the firm will express an opinion or conclusion. Such services might also create an advocacy threat.

604.12 A2 [Amended by the NZAuASB]

NZ604.12 A2 Factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services will not create a self-review threat if such services include the extent to which the tax advisory or tax planning services:

- (a) Are supported by a tax authority or other precedent;
- (b) Are based on an established practice (being a practice that has been commonly used and has not been challenged by the relevant tax authority); or
- (c) Have a basis in tax law that the firm is confident is likely to prevail.

604.12 A3 In addition to paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services to audit or review clients, and evaluating the level of such threats include:

- 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 ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.
- The extent to which the outcome of the tax advice might have a material effect on the financial statements.

When a self-review threat for an audit or review client that is a public interest entity has been identified, paragraph R604.15 applies.

When Effectiveness of Tax Advice Is Dependent on a Particular Accounting Treatment or Presentation

R604.13 A firm or a network firm shall not provide tax advisory and tax planning services to an audit or review client when:

- (a) The effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements; and
- (b) The audit or review team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit Clients that are Not Public Interest Entities

604.14 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing tax advisory and tax planning services to an audit or review client that is not a public interest entity include:

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer, who was not involved in providing the service, review the audit or review work or service performed might address a self-review threat.

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New paragraph

Commented [SW81]: Amended to reflect that self-review or advocacy threats may be created.

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604.7 A3

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R604.8

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604.7 A4

- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Audit or Review Clients that are Public Interest Entities

R604.15 ~~A firm or a network firm shall not provide tax advisory and tax planning services to an audit client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14, R600.16, 604.12 A2). [Amended by the NZAuASB]~~

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New paragraph

NZ R604.15 A firm or a network firm shall not provide tax advisory and tax planning services to an audit or review client that is a public interest entity.

Commented [SW86]: New NZ paragraph

NZ 604.15 A1 The provision of tax advisory and tax planning services to an audit or review client that is a public interest entity creates a threat to independence that cannot be eliminated, and safeguards are not capable of being applied to reduce that threat to an acceptable level.

Commented [SW87]: New NZ paragraph

Advocacy Threats

604.15 A1 ~~Examples of actions that might be safeguards to address an advocacy threat created by providing tax advisory and tax planning services to an audit client that is a public interest entity include:~~

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New paragraph

- ~~Using professionals who are not audit team members to perform the service.~~
- ~~Obtaining pre-clearance from the tax authorities. [Deleted by the NZAuASB]~~

D. Tax Services Involving Valuations

Description of Service

604.16 A1 The provision of tax services involving valuations might arise in a range of circumstances including:

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New paragraph

- Merger and acquisition transactions.
- Group restructurings and corporate reorganisations.
- Transfer pricing studies.
- Stock-based compensation arrangements.

Potential Threats Arising from the Provision of Tax Services involving Valuations

All Audit or Review Clients

604.17 A1 Providing a valuation for tax purposes to an audit or review client might create a self-review threat when there is a risk that the results of the service will affect the accounting records or the financial statements on which the firm will express an opinion or conclusion. Such a service might also create an advocacy threat.

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604.9 A1

604.17 A2 When a firm or a network firm performs a valuation for tax purposes to assist an audit or review client with its tax reporting obligations or for tax planning purposes, the result of the valuation might:

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604.9 A5

- (a) Have no effect on the accounting records or the financial statements other than through accounting entries related to tax. In such situations, the requirements and application material set out in this subsection apply.
- (b) Affect the accounting records or the financial statements in ways not limited to accounting entries related to tax, for example, if the valuation leads to a revaluation of assets. In such situations, the requirements and application material set out in subsection 603 relating to valuation services apply.

604.17 A3 Performing a valuation for tax purposes for an audit or review client will not create a self-review threat if:

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New paragraph

- (a) The underlying assumptions are either established by law or regulation, or are widely accepted; or
- (b) The techniques and methodologies to be used are based on generally accepted standards or prescribed by law or regulation, and the valuation is subject to external review by a tax authority or similar regulatory authority.

Audit or Review Clients that are Not Public Interest Entities

604.18 A1 A firm or a network firm might perform a valuation for tax purposes for an audit or review client that is not a public interest entity where the result of the valuation only affects the accounting records or the financial statements through accounting entries related to tax. This would not usually create threats if the effect on the financial statements is immaterial or the valuation, as incorporated in a tax return or other filing, is subject to external review by a tax authority or similar regulatory authority.

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604.9 A2

604.18 A2 If the valuation that is performed for tax purposes is not subject to an external review and the effect is material to the financial statements, in addition to paragraph 604.3 A2, the following factors are relevant in identifying self-review or advocacy threats created by providing those services to an audit or review client that is not a public interest entity, and evaluating the level of such threats:

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604.9 A3

- 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.
- The reliability and extent of the underlying data.

604.18 A3 Examples of actions that might be safeguards to address such threats for an audit or review client that is not a public interest entity include:

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604.9 A4

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or service performed might address a self-review threat.

- Obtaining pre-clearance from the tax authorities might address self-review or advocacy threats.

Audit or Review Clients that are Public Interest Entities

Self-review Threats

R604.19 A firm or a network firm shall not perform a valuation for tax purposes for an audit or review client that is a public interest entity if the provision of that service might create a self-review threat. (Ref: Para. R600.14, R600.16, 604.17 A3).

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New paragraph

Advocacy Threats

604.19 A1 Examples of actions that might be safeguards to address an advocacy threat created by providing a valuation for tax purposes for an audit or review client that is a public interest entity include:

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New paragraph

- Using professionals who are not audit or review team members to perform the service.
- Obtaining pre-clearance from the tax authorities.

E. Assistance in the Resolution of Tax Disputes

Description of Service

604.20 A1 A non-assurance service to provide assistance to an audit or review client in the resolution of tax disputes might arise from a tax authority's consideration of tax calculations and treatments. Such a service might include, for example, providing assistance when the tax authorities have notified the 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 before a tribunal or court.

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604.10 A2

Potential Threats Arising from the Provision of Assistance in the Resolution of Tax Disputes

All Audit or Review Clients

604.21 A1 Providing assistance in the resolution of a tax dispute to an audit or review client might create a self-review threat when there is a risk that the results of the service will affect the accounting records or the financial statements on which the firm will express an opinion or conclusion. Such a service might also create an advocacy threat.

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604.10 A1

604.22 A1 In addition to those identified in paragraph 604.3 A2, factors that are relevant in identifying self-review or advocacy threats created by assisting an audit or review client in the resolution of tax disputes, and evaluating the level of such threats include:

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604.10 A3

- 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 or conclusion.
- Whether the firm or network firm provided the advice that is the subject of the tax dispute.
- The extent to which the matter is supported by tax law or regulation, other precedent, or established practice.

- Whether the proceedings are conducted in public.

When a self-review threat for an audit or review client that is a public interest entity has been identified, paragraph R604.24 applies.

Audit or Review Clients that are Not Public Interest Entities

604.23 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by assisting an audit or review client that is not a public interest entity in the resolution of tax disputes include:

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604.10 A4

- Using professionals who are not audit or review team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or the service performed might address a self-review threat.

Audit or Review Clients that are Public Interest Entities

Self-review Threats

R604.24 A firm or a network firm shall not provide assistance in the resolution of tax disputes to an audit or review client that is a public interest entity if the provision of that assistance might create a self-review threat. (Ref: Para. R600.14 and R600.16).

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New paragraph

Advocacy Threats

604.24 A1 An example of an action that might be a safeguard to address an advocacy threat for an audit or review client that is a public interest entity is using professionals who are not audit or review team members to perform the service.

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New paragraph

Resolution of Tax Matters Including Acting as an Advocate Before a Tribunal or Court

Audit or Review Clients that are Not Public Interest Entities

R604.25 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit or review client that is not a public interest entity if:

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R604.11

- The services involve acting as an advocate for the audit or review client before a tribunal or court in the resolution of a tax matter; and
- The amounts involved are material to the financial statements on which the firm will express an opinion or conclusion.

Audit or Review Clients that are Public Interest Entities

R604.26 A firm or a network firm shall not provide tax services that involve assisting in the resolution of tax disputes to an audit or review client that is a public interest entity if the services involve acting as an advocate for the audit or review client before a tribunal or court.

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New paragraph

604.27 A1 Paragraphs R604.25 and R604.26 do not preclude a firm or a network firm from having a continuing advisory role in relation to the matter that is being heard before a tribunal or court, for example:

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604.11 A1

- Responding to specific requests for information.
- Providing factual accounts or testimony about the work performed.
- Assisting the client in analysing the tax issues related to the matter.

604.27 A2 What constitutes a “tribunal or court” depends on how tax proceedings are heard in the particular jurisdiction.

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604.11 A2

SUBSECTION 605 – INTERNAL AUDIT SERVICES

Introduction

605.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing an internal audit service to an audit or review client.

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605.2

Requirements and Application Material

Description of Service

605.2 A1 Internal audit services comprise a broad range of activities and might involve assisting the audit or review client in the performance of one or more aspects of its internal audit activities. Internal audit activities might include:

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605.3 A1

- 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.
 - 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.
- Reviewing compliance with:
 - Laws, regulations and other external requirements.
 - Management policies, directives and other internal requirements.

605.2 A2 The scope and objectives of internal audit activities vary widely and depend on the size and structure of the entity and the requirements of those charged with governance as well as the needs and expectations of management. As they might involve matters that are operational in nature, they do not necessarily relate to matters that will be subject to consideration in relation to the audit or review of the financial statements.

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605.3 A2

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

R605.3 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to an audit or review client, the firm shall be satisfied that:

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605.4 A1, R605.4

- (a) The client designates an appropriate and competent resource, who reports to those charged with governance to:
 - (i) Be responsible at all times for internal audit activities; and
 - (ii) Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;
- (b) The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c) The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d) The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e) The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

605.3 A1 Performing part of the client's internal audit activities increases the possibility that individuals within the firm or the network firm providing internal audit services will assume a management responsibility.

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605.4 A1

605.3 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, monitoring and maintaining internal control.
- Performing outsourced internal audit services, comprising all or a substantial portion of the internal audit function, where the firm or network 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.

Potential Threats Arising from the Provision of Internal Audit Services

All Audit or Review Clients

605.4 A1 Providing internal audit services to an audit or review client might create a self-review threat when there is a risk that the results of the services impact the audit or review of the financial statements on which the firm will express an opinion or conclusion.

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605.1

605.4 A2 When a firm uses the work of an internal audit function in an audit or review engagement, ISAs require the performance of procedures to evaluate the adequacy of that work. Similarly, when a firm or a network firm accepts an engagement to provide internal audit services to an audit or review client, the results of those services might be used in conducting the external audit or review. This might create a self-review threat because it is possible that the audit or review team will use the results of the internal audit service for purposes of the audit or review engagement without:

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605.4 A3

- (a) Appropriately evaluating those results; or
- (b) 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.

605.4 A3 Factors that are relevant in identifying a self-review threat created by providing internal audit services to an audit or review client, and evaluating the level of such a threat include:

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605.4 A4

- The materiality of the related financial statements amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.
- The degree of reliance that the audit or review team will place on the work of the internal audit service.

When a self-review threat for an audit or review client that is a public interest entity has been identified, paragraph R605.6 applies.

Audit or Review Clients that are Not Public Interest Entities

605.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an internal audit service to an audit or review client that is not a public interest entity is using professionals who are not audit or review team members to perform the service.

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605.4 A5

Audit or Review Clients that are Public Interest Entities

R605.6 A firm or a network firm shall not provide internal audit services to an audit or review client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14 and R600.16).

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R605.5

605.6 A1 Examples of the services that are prohibited under paragraph R605.6 include internal audit services that relate to:

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R605.5

- The internal controls over financial reporting.
- Financial accounting systems that generate information for the client's accounting records or financial statements on which the firm will express an opinion or conclusion.

- Amounts or disclosures that relate to the financial statements on which the firm will express an opinion or conclusion.

SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

Introduction

606.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing an information technology (IT) systems service to an audit or review client.

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606.2

Requirements and Application Material

Description of Service

606.2 A1 Services related to 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 also involve matters that are unrelated to the audit or review client's accounting records or the internal control over financial reporting or financial statements.

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606.3 A1

Risk of Assuming Management Responsibility When Providing an IT Systems Service

R606.3 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an audit or review client, the firm or network firm shall be satisfied that:

- (a) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b) 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;
- (c) The client makes all management decisions with respect to the design and implementation process;
- (d) The client evaluates the adequacy and results of the design and implementation of the system; and
- (e) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

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R606.4, 606.3 A2

Potential Threats Arising from the Provision of IT Systems Services

All Audit or Review Clients

606.4 A1 Providing IT systems services to an audit or review client might create a self-review threat when there is a risk that the results of the services will affect the audit or review of the financial statements on which the firm will express an opinion or conclusion.

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606.1

606.4 A2 Providing the following IT systems services to an audit or review client does not usually create a threat as long as individuals within the firm or network firm do not assume a management responsibility:

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606.3 A2

- (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 part of the accounting records or financial statements; and
- (c) Implementing “off-the-shelf” accounting or financial information reporting software that was not developed by the firm or network firm, if the customisation required to meet the client’s needs is not significant.

606.4 A3 Factors that are relevant in identifying a self-review threat created by providing an IT systems service to an audit or review client, and evaluating the level of such a threat include:

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606.4 A1

- The nature of the service.
- The nature of the client’s IT systems and the extent to which the IT systems service impacts or interacts with the client’s accounting records, internal controls over financial reporting or financial statements.
- The degree of reliance that will be placed on the particular IT systems as part of the audit or review.

When a self-review threat for an audit or review client that is a public interest entity has been identified, paragraph R606.6 applies.

Audit or Review Clients that are Not Public Interest Entities

606.5 A1 An example of an action that might be a safeguard to address a self-review threat created by the provision of an IT systems service to an audit or review client that is not a public interest entity is using professionals who are not audit or review team members to perform the service.

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606.4 A2

Audit or Review Clients that are Public Interest Entities

R606.6 A firm or a network firm shall not provide IT systems services to an audit or review client that is a public interest entity if the provision of such services might create a self-review threat (Ref: Para. R600.14 and R600.16).

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R606.5

606.6 A1 Examples of services that are prohibited because they give rise to a self-review threat include those involving designing or implementing IT systems that:

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R606.5

- Form part of the internal control over financial reporting; or
- Generate information for the client’s accounting records or financial statements on which the firm will express an opinion or conclusion.

SUBSECTION 607 – LITIGATION SUPPORT SERVICES

Introduction

607.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a litigation support service to an audit or review client.

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607.2

Requirements and Application Material

Description of Service

607.2 A1 Litigation support services might include activities such as:

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

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607.3 A1

Potential Threats Arising from the Provision of Litigation Support Services

All Audit or Review Clients

607.3 A1 Providing litigation support services to an audit or review client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion or conclusion. Such services might also create an advocacy threat.

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607.1

607.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing litigation support services to an audit or review client, and evaluating the level of such threats include:

- The legal and regulatory environment in which the service is provided.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service might involve estimating, or might affect the estimation of, damages or other amounts that might have a material effect on the financial statements on which the firm will express an opinion or conclusion.

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607.3 A2

When a self-review threat for an audit or review client that is a public interest entity has been identified, paragraph R607.6 applies.

607.4 A2 If a firm or a network firm provides a litigation support service to an audit or review client and the service might involve estimating, or might affect the estimation of, damages or other amounts that affect the financial statements on which the firm will express an opinion or conclusion, the requirements and application material set out in Subsection 603 related to valuation services apply.

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607.3 A4

Audit or Review Clients that are Not Public Interest Entities

607.5 A1 An example of an action that might be a safeguard to address a self-review or advocacy threat created by providing a litigation support service to an audit or review client that is not a public interest entity is using a professional who was not an audit or review team member to perform the service.

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607.3 A3

Audit or Review Clients that are Public Interest Entities

Self-review Threats

R607.6 A firm or a network firm shall not provide litigation support services to an audit or review client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14 and R600.16).

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New paragraph

607.6 A1 An example of a service that is prohibited because it might create a self-review threat is providing advice in connection with a legal proceeding where there is a risk that the outcome of the service affects the quantification of any provision or other amount in the financial statements on which the firm will express an opinion or conclusion.

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New paragraph

Advocacy Threats

607.6 A2 An example of an action that might be a safeguard to address an advocacy threat created by providing a litigation support service to an audit or review client that is a public interest entity is using a professional who was not an audit or review team member to perform the service.

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Acting as a Witness

All Audit or Review Clients

607.7 A1 A professional within the firm or the network firm might give evidence to a tribunal or court as a witness of fact or as an expert witness.

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- (a) A witness of fact is an individual who gives evidence to a tribunal or court based on his or her direct knowledge of facts or events.
- (b) An expert witness is an individual who gives evidence, including opinions on matters, to a tribunal or court based on that individual's expertise.

607.7 A2 A threat to independence is not created when an individual, in relation to a matter that involves an audit or review client, acts as a witness of fact and in the course of doing so provides an opinion within the individual's area of expertise in response to a question asked in the course of giving factual evidence.

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607.7 A3 The advocacy threat created when acting as an expert witness on behalf of an audit or review client is at an acceptable level if a firm or a network firm is:

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- (a) Appointed by a tribunal or court to act as an expert witness in a matter involving a client; or
- (b) Engaged to advise or act as an expert witness in relation to a class action (or an equivalent group representative action) provided that:

- (i) The firm's audit or review clients constitute less than 20% of the members of the class or group (in number and in value);
- (ii) No audit or review client is designated to lead the class or group; and
- (iii) No audit or review client is authorised by the class or group to determine the nature and scope of the services to be provided by the firm or the terms on which such services are to be provided.

Audit or Review Clients that are Not Public Interest Entities

607.8 A1 An example of an action that might be a safeguard to address an advocacy threat for an audit or review client that is not a public interest entity is using a professional to perform the service who is not, and has not been, an audit or review team member.

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Audit or Review Clients that are Public Interest Entities

R607.9 A firm or a network firm, or an individual within a firm or a network firm, shall not act for an audit or review client that is a public interest entity as an expert witness in a matter unless the circumstances set out in paragraph 607.7 A3 apply.

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SUBSECTION 608 – LEGAL SERVICES

Introduction

608.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a legal service to an audit or review client.

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Requirements and Application Material

Description of Service

608.2 A1 Legal services are defined as any services for which the individual providing the services must either:

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608.3 A1

- (a) Have the required legal training to practice law; or
- (b) Be admitted to practice law before the courts of the jurisdiction in which such services are to be provided.

608.2 A2 This subsection deals specifically with:

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- Providing legal advice.
- Acting as general counsel.
- Acting in an advocacy role.

Potential Threats Arising from Providing Legal Services

All Audit or Review Clients

608.3 A1 Providing legal services to an audit or review client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial

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statements on which the firm will express an opinion or conclusion. Such services might also create an advocacy threat.

A. Providing Legal Advice

Description of Service

608.4 A1 Depending on the jurisdiction, providing legal advice might include a wide and diversified range of service areas including both corporate and commercial services to audit or review clients, such as:

- Contract support.
- Supporting an audit or review client in executing a transaction.
- Mergers and acquisitions.
- Supporting and assisting an audit or review client's internal legal department.
- Legal due diligence and restructuring.

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Potential Threats Arising from Providing Legal Advice

All Audit or Review Clients

608.5 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing legal advice to an audit or review client, and evaluating the level of such threats include:

- The materiality of the specific matter in relation to the client's financial statements.
- The complexity of the legal matter and the degree of judgement necessary to provide the service.

When a self-review threat for an audit or review client that is a public interest entity has been identified, paragraph R608.7 applies.

608.5 A2 Examples of legal advice that might create a self-review threat include:

- Estimating a potential loss arising from a lawsuit for the purpose of recording a provision in the client's financial statements.
- Interpreting provisions in contracts that might give rise to liabilities reflected in the client's financial statements.

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608.5 A3 Negotiating on behalf of an audit or review client might create an advocacy threat or might result in the firm or network firm assuming a management responsibility.

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Audit or Review Clients that are Not Public Interest Entities

608.6 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing legal advice to an audit or review client that is not a public interest entity include:

- Using professionals who are not audit or review team members to perform the service might address a self-review or advocacy threat.

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608.4 A3

- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or the service performed might address a self-review threat.

Audit or Review Clients that are Public Interest Entities

Self-review Threats

R608.7 A firm or a network firm shall not provide legal advice to an audit or review client that is a public interest entity if the provision of such a service might create a self-review threat. (Ref: Para. R600.14 and R600.16).

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Advocacy Threats

608.8 A1 The considerations in paragraphs 608.5 A1 and 608.5 A3 to 608.6 A1 are also relevant to evaluating and addressing advocacy threats that might be created by providing legal advice to an audit or review client that is a public interest entity.

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B. Acting as General Counsel

All Audit or Review Clients

R608.9 A partner or employee of the firm or the network firm shall not serve as General Counsel of an audit or review client.

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608.9 A1 The position of General Counsel is usually a senior management position with broad responsibility for the legal affairs of a company.

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C. Acting in an Advocacy Role

Potential Threats Arising from Acting in an Advocacy Role Before a Tribunal or Court

Audit or Review Clients that are Not Public Interest Entities

R608.10 A firm or a network firm shall not act in an advocacy role for an audit or review client that is not a public interest entity in resolving a dispute or litigation before a tribunal or court when the amounts involved are material to the financial statements on which the firm will express an opinion or conclusion.

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608.10 A1 Examples of actions that might be safeguards to address a self-review or advocacy threat created when acting in an advocacy role for an audit or review client that is not a public interest entity include:

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608.6 A1

- Using professionals who are not audit or review team members to perform the service.
- Having an appropriate reviewer who was not involved in providing the service review the audit or review work or the service performed.

Audit or Review Clients that are Public Interest Entities

R608.11 A firm or a network firm shall not act in an advocacy role for an audit or review client that is a public interest entity in resolving a dispute or litigation before a tribunal or court.

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SUBSECTION 609 – RECRUITING SERVICES

Introduction

609.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a recruiting service to an audit or review client.

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Requirements and Application Material

Description of Service

609.2 A1 Recruiting services might include activities such as:

- Developing a job description.
- Developing a process for identifying and selecting potential candidates.
- Searching for or seeking out candidates.
- Screening potential candidates for the role by:
 - Reviewing the professional qualifications or competence of applicants and determining their suitability for the position.
 - Undertaking reference checks of prospective candidates.
 - Interviewing and selecting suitable candidates and advising on candidates' competence.
- Determining employment terms and negotiating details, such as salary, hours and other compensation.

Risk of Assuming Management Responsibility When Providing a Recruiting Service

R609.3 Paragraph R400.13 precludes a firm or a network firm from assuming a management responsibility. When providing a recruiting service to an audit client, the firm shall be satisfied that:

- (a) The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
- (b) The client makes all management decisions with respect to the hiring process, including:
 - Determining the suitability of prospective candidates and selecting suitable candidates for the position.
 - Determining employment terms and negotiating details, such as salary, hours and other compensation.

Potential Threats Arising from Providing Recruiting Services

All Audit Clients

- 609.4 A1 Providing recruiting services to an audit client might create a self-interest, familiarity or intimidation threat.
- 609.4 A2 Providing the following services does not usually create a threat as long as individuals within the firm or the network firm do not assume a management responsibility:
- Reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the position.
 - Interviewing candidates and advising on a candidate's competence for financial accounting, administrative or control positions.
- 609.4 A3 Factors that are relevant in identifying self-interest, familiarity or intimidation threats created by providing recruiting services to an audit client, and evaluating the level of such threats include:
- The nature of the requested assistance.
 - The role of the individual to be recruited.
 - Any conflicts of interest or relationships that might exist between the candidates and the firm providing the advice or service.
- 609.4 A4 An example of an action that might be a safeguard to address such a self-interest, familiarity or intimidation threat is using professionals who are not audit team members to perform the service.

Recruiting Services that are Prohibited

- R609.5** When providing recruiting services to an audit client, the firm or the network firm shall not act as a negotiator on the client's behalf.
- R609.6** A firm or a network firm shall not provide a recruiting service to an audit client if the service relates to:
- (a) Searching for or seeking out candidates;
 - (b) Undertaking reference checks of prospective candidates;
 - (c) Recommending the person to be appointed; or
 - (d) Advising on the terms of employment, remuneration or related benefits of a particular candidate,
- with respect to the following positions:
- (i) A director or officer of the entity; or
 - (ii) 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.

SUBSECTION 610 – CORPORATE FINANCE SERVICES

Introduction

610.1 In addition to the specific requirements and application material in this subsection, the requirements and application material in paragraphs 600.1 to 600.27 A1 are relevant to applying the conceptual framework when providing a corporate finance service to an audit client.

Requirements and Application Material

Description of Service

610.2 A1 Examples of corporate finance services include:

- Assisting an audit client in developing corporate strategies.
- Identifying possible targets for the audit client to acquire.
- Advising on the potential purchase or disposal price of an asset.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements.

Potential Threats Arising from the Provision of Corporate Finance Services

All Audit Clients

610.3 A1 Providing corporate finance services to an audit client might create a self-review threat when there is a risk that the results of the services will affect the accounting records or the financial statements on which the firm will express an opinion. Such services might also create an advocacy threat.

610.4 A1 Factors that are relevant in identifying self-review or advocacy threats created by providing corporate finance services to an audit client, and evaluating the level of such threats 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.
 - The outcome of the corporate finance service might have a material effect on the financial statements.

When a self-review threat for an audit client that is a public interest entity has been identified, paragraph R610.8 applies.

Corporate Finance Services that are Prohibited

R610.5 A firm or a network firm shall not provide corporate finance services that involve promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the audit client or providing advice on investment in such shares, debt or other financial instruments.

R610.6 A firm or a network firm shall not provide advice in relation to corporate finance services to an audit client where:

- (a) The effectiveness of such advice depends on a particular accounting treatment or presentation in the financial statements on which the firm will express an opinion; and
- (b) The audit team has doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

Audit Clients that are Not Public Interest Entities

610.7 A1 Examples of actions that might be safeguards to address self-review or advocacy threats created by providing corporate finance services to an audit client that is not a public interest entity include:

- Using professionals who are not audit team members to perform the service might address self-review or advocacy threats.
- Having an appropriate reviewer who was not involved in providing the service review the audit work or service performed might address a self-review threat.

Audit Clients that are Public Interest Entities

Self-review Threats

R610.8 A firm or a network firm shall not provide corporate finance services to an audit client that is a public interest entity if the provision of such services might create a self-review threat. (Ref: Para. R600.14 and R600.16).

Advocacy Threats

610.8 A1 An example of an action that might be a safeguard to address advocacy threats created by providing corporate finance services to an audit client that is a public interest entity is using professionals who are not audit team members to perform the service.

II. Conforming Amendments to Section 400

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Section 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

...

General

...

Requirements and Application Material

...

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 A firm or a network firm shall not assume a management responsibility for an audit client.

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 or a network firm assumes a management responsibility for an audit or review 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 interests of management.

400.13 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 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.

400.13 A4 Subject to compliance with paragraph R400.14, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit or review client might create a self-review threat and is addressed in Section 600.

R400.14 When performing a professional activity for an audit or review client, the firm shall be satisfied that client management makes all judgements 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 activities. Such an individual, preferably within senior management, would understand:
 - (i) The objectives, nature and results of the activities; 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 activities.
- (b) Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

[Paragraphs 400.15 to 400.19 are intentionally left blank]

Related Entities

R400.20 As defined, an audit or review client that is a listed entity includes all of its related entities. For all other entities, references to an audit or review client in this Part include related entities over which the client has direct or indirect control. When the audit or review 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 or review team shall include that related entity when identifying, evaluating and addressing threats to independence.

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R400.20

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Period During which Independence is Required

All Audit or Review 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.

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R400.30

400.30 A1 The engagement period starts when the audit or review team begins to perform the audit or review. The engagement period ends when the audit or review 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 or review report.

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

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R400.31

- (a) Financial or business relationships with the audit or review client during or after the period covered by the financial statements but before accepting the audit or review engagement; or
- (b) Services provided to the audit or review client by the firm or a network firm in prior financial statement periods.

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

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400.31 A1

400.31 A2 A factor to be considered in such circumstances is whether the results of the service provided might form part of or affect the accounting records, the internal controls over financial reporting, or the financial statements on which the firm will express an opinion or conclusion.

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400.31 A3 Examples of actions that might be safeguards to address threats to independence include:

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- Not assigning professionals who performed the non-assurance service to be members of the engagement team.
- Having an appropriate reviewer review the audit or review work or non-assurance service 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.

400.31 A4 A threat to independence created by the provision of a non-assurance service by a firm or a network firm prior to the audit or review engagement period or prior to the period covered by the financial statements on which the firm will express an opinion or conclusion is eliminated or reduced to an acceptable level if the results of such service have been used or implemented

in a period audited by another firm.

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New paragraph

Audit or Review Clients that are Public Interest Entities

R400.32 A firm shall not accept appointment as auditor or assurance practitioner of a public interest entity to which the firm or the network firm has provided a non-assurance service prior to such appointment that might create a self-review threat in relation to the financial statements on which the firm will express an opinion or conclusion unless:

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- (a) The provision of such service ceases before the commencement of the audit or review engagement period;
- (b) The firm takes action to address any threats to its independence; and
- (c) The firm determines that, in the view of a reasonable and informed third party, any threats to the firm's independence have been or will be eliminated or reduced to an acceptable level.

400.32 A1 Actions that might be regarded by a reasonable and informed third party as eliminating or reducing to an acceptable level any threats to independence created by the provision of non-assurance services to a public interest entity prior to appointment as auditor or assurance practitioner of that entity include:

- The results of the service had been subject to auditing or review procedures in the course of the audit or review of the prior year's financial statements by a predecessor firm.
- The firm engages a professional accountant, who is not a member of the firm expressing the opinion or conclusion on the financial statements, to perform a review of the first audit or review engagement affected by the self-review threat consistent with the objective of an engagement quality review.
- The public interest entity engages another firm outside of the network to:
 - (i) Evaluate the results of the non-assurance service; or
 - (ii) Re-perform the service,to the extent necessary to enable the other firm to take responsibility for the result of the service.

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New paragraph

[Paragraphs 400.33 to 400.39 are intentionally left blank]

Consequential Amendments to Section 950

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

...

SECTION 950

PROVISION OF NON-ASSURANCE SERVICES TO ASSURANCE CLIENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENT 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.
- 950.3 This section sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-assurance services to assurance clients.
- 950.4 New business practices, the evolution of financial markets and changes in technology are some developments that make it impossible to draw up an all-inclusive list of non-assurance services that firms might provide to an assurance client. The conceptual framework and the general provisions in this section apply when a firm proposes to a client to provide a non-assurance service for which there are no specific requirements and application material.

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950.3 A2

Requirements and Application Material

General

Risk of Assuming Management Responsibilities When Providing a Non-Assurance Service

- 950.5 A1 When a firm provides a non-assurance service to an assurance client, there is a risk that a firm will assume a management responsibility in relation to the underlying subject matter and, in an attestation engagement, the subject matter information of the assurance engagement unless the firm is satisfied that the requirements in paragraphs R900.13 and R900.14 have been complied with.

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Accepting an Engagement to Provide a Non-Assurance Service

- R950.6** Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall apply the conceptual framework to identify, evaluate and address any threat to independence that might be created by providing that service.

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R950.3

Identifying and Evaluating Threats

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

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950.7 A2 Factors that are relevant in identifying and evaluating the different threats that might be created by providing a non-assurance service to an assurance client include:

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950.4 A1

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service 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 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 judgement (Ref: Para. R900.13 to R900.14).
- The degree of reliance that will be placed on the outcome of the service as part of the assurance engagement.
- The fee relating to the provision of the non-assurance service.

Materiality in Relation to an Assurance Client's Information

950.8 A1 Materiality is a factor that is relevant in evaluating threats created by providing a non-assurance service to an assurance client. The concept of materiality in relation to an assurance client's subject matter 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 judgement and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial or other information needs of users.

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950.4 A2

Multiple Non-assurance Services Provided to the Same Assurance Client

950.9 A1 A firm might provide multiple non-assurance services to an assurance client. In these circumstances the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

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950.4 A3

Self-Review Threats

950.10 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:

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950.8 A1

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

Assurance clients that are public interest entities

950.11 A1 Expectations about a firm's independence are heightened when an assurance engagement is undertaken by a firm for a public interest entity and the results of that engagement will be:

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New paragraph

- (a) Made available publicly, including to shareholders and other stakeholders; or
- (b) Provided to an entity or organisation established by law or regulation to oversee the operation of a business sector or activity.

Consideration of these expectations forms part of the reasonable and informed third party test applied when determining whether to provide a non-assurance service to an assurance client.

950.11 A2 If a self-review threat exists in relation to an engagement undertaken in the circumstances described in paragraph 950.11 A1 (b), the firm is encouraged to disclose the existence of that self-review threat and the steps taken to address it to the party engaging the firm or those charged with governance of the assurance client and to the entity or organisation established by law or regulation to oversee the operation of a business sector or activity to which the results of the engagement will be provided.

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Addressing Threats

950.12 A1 Paragraphs 120.10 to 120.10 A2 include a requirement and application material that are relevant when addressing threats to independence, including a description of safeguards.

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950.5 A1

950.12 A2 Threats to independence created by providing a non-assurance service or multiple services to an assurance client vary depending on facts and circumstances of the assurance engagement and the nature of the service. Such threats might be addressed by applying safeguards or by adjusting the scope of the proposed service.

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950.12 A3 Examples of actions that might be safeguards to address such threats include:

- Using professionals who are not assurance team members to perform the service.

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New paragraph

- Having an appropriate reviewer who was not involved in providing the service review the assurance work or service performed.

950.12 A4 Safeguards might not be available to reduce the threat created by providing a non-assurance service to an assurance client to an acceptable level. In such a situation, the application of the conceptual framework requires the firm to:

- Adjust the scope of the proposed service to eliminate the circumstances that are creating the threat;
- Decline or end the service that creates the threat that cannot be eliminated or reduced to an acceptable level; or
- End the assurance engagement.

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New paragraph

IV. Conforming Amendments to Section 900

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

Section 900

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

...

Requirements and Application Material

General

R900.11 A firm performing an assurance engagement shall be independent of the assurance client.

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R900.11

900.11 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).

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900.11 A1

900.11 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.

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900.11 A2

900.11 A3 In addition to the responsible party and, in an attestation engagement, the party taking responsibility for the subject matter information, there might be other parties in relation to the engagement. For example, there might be a separate engaging party or a party who is a measurer or evaluator other than the party taking responsibility for the subject matter information. In these circumstances, applying the conceptual framework requires the professional accountant to identify and evaluate threats to the fundamental principles created by any interests or relationships with such parties, including whether any conflicts of interest might exist as described in Section 310.

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900.11 A3

R900.12 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an assurance engagement.

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R900.12

Prohibition on Assuming Management Responsibilities

R900.13 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.

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R950.6

900.13 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.

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950.6 A1

900.13 A2 When a firm assumes a management responsibility related to the underlying subject matter and, in an attestation engagement, the subject matter information of an assurance engagement, self-review, self-interest and familiarity threats are created. Assuming a management responsibility might create an advocacy threat because the firm becomes too closely aligned with the views and interests of management.

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950.6 A2

900.13 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. Examples of activities that would be considered a management responsibility include:

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950.6 A3

- 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.
- Authorising 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.

900.13 A4 Subject to compliance with paragraph R900.14, providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility.

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950.6 A4

R900.14 When performing a professional activity for an assurance client that is 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 judgements and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

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R950.7

(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 activities. Such an individual, preferably within senior management, would understand:

- (i) The objectives, nature and results of the activities; and
- (ii) The respective client and firm responsibilities.

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

- (b) Provides oversight of the activities and evaluates the adequacy of the results of the activity performed for the client's purpose; and
- (c) Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

Multiple Responsible Parties and Parties Taking Responsibility for the Subject Matter Information

900.14 A1 In some assurance engagements, whether an attestation engagement or direct engagement, there might be several responsible parties or, in an attestation engagement, several parties taking responsibility for the subject matter information. In determining whether it is necessary to apply the provisions in this Part to each individual responsible party or each individual party taking responsibility for the subject matter information in such engagements, the firm may take into account certain matters. These matters include whether an interest or relationship between the firm, or an assurance team member, and a particular responsible party or party taking responsibility for the subject matter information would create a threat to independence that is not trivial and inconsequential in the context of the subject matter information. This determination will take into account factors such as:

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900.13 A1

- (a) The materiality of the underlying subject matter or subject matter information for which the particular party is responsible in the context of the overall assurance engagement.
- (b) The degree of public interest associated with the assurance engagement.

If the firm determines that the threat created by any such interest or relationship with a particular party would be trivial and inconsequential, it might not be necessary to apply all of the provisions of this section to that party.

Network Firms

R900.15 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.

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R900.14

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

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900.14 A1

Related Entities

R900.16 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.

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R900.15

[Paragraphs 900.17 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:

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R900.30

- (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.

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900.30 A1

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:

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R900.31

- (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.

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R900.32

900.32 A1 Examples of actions that might be safeguards to address such threats include:

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900.32 A1

- Using professionals who are not assurance team members to perform the service.

- Having an appropriate reviewer review the assurance or 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:

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R900.33

- (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 the party engaging the firm or those charged with governance of the assurance client.

Communication with Those Charged With Governance

900.34 A1 Paragraphs R300.9 to 300.9 A2 set out requirements and application material that is relevant to communications with a party engaging the firm or those charged with governance of the assurance client.

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New paragraph

900.34 A2 Communication with a party engaging the firm or those charged with governance of the assurance client might be appropriate when significant judgements are made, and conclusions reached, to address threats to independence in relation to an assurance engagement because the subject matter information of that engagement is the outcome of a previously performed non-assurance service.

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New paragraph

[Paragraphs 900.35 to 900.39 are intentionally left blank]

V. Conforming Amendment to Section 525

INTERNATIONAL INDEPENDENCE STANDARDS

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Section 525

TEMPORARY PERSONNEL ASSIGNMENTS

...

Requirements and Application Material

R525.4 A firm or a network firm shall not loan personnel to an audit or review client unless the firm or network firm is satisfied that:

- (a) Such assistance is provided only for a short period of time;
- (b) Such personnel will not assume management responsibilities and the audit or review client will be responsible for directing and supervising the activities of such personnel;

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- (c) Any threat to the independence of the firm or network firm arising from the professional services undertaken by such personnel is eliminated or safeguards are applied to reduce such threat to an acceptable level; and
- (d) Such personnel will not undertake or be involved in professional services that the firm or network firm is prohibited from performing by the Code.

EFFECTIVE DATE

- Revised Section 600 and the conforming amendments to Part 4A will be effective for audits and reviews of financial statements for periods beginning on or after 15 December 2022.
- The conforming and consequential amendments to Sections 900 and 950 in relation to assurance engagements with respect to underlying subject matters covering periods of time will be effective for periods beginning on or after 15 December 2022; otherwise, these amendments will be effective as of 15 December 2022.

Early adoption will be permitted.

Transitional Provision

For non-assurance services engagements a firm or network firm has entered into with an audit client, or for non-assurance services engagements a firm has entered into with an assurance client, before 15 December 2022 and for which work has already commenced, the firm or network firm may continue such engagements under the extant provisions of the Code until completed in accordance with the original engagement terms.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 3.1

Meeting date: 19 July 2021

Subject: Revisions to the Fee-Related Provisions of the Code

Date: 7 July 2021

Prepared By: Sharon Walker

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is:
 - To PROVIDE the Board with an overview of the Accounting Professional and Ethical Standards Board's (APESB's) proposed changes to the Fee-Related provisions; and
 - To REQUEST the Board to confirm its previous decision to adopt the IESBA Fee-Related provisions with minimal change in New Zealand.

Background

2. At the [February 2021 meeting](#)¹, we provided the Board with an overview of the key issues raised in the IESBA's Fee-Related Matters exposure draft and how those issues were addressed in finalising the proposals. We also highlighted if, and how, matters raised in the [NZAuASB's submission](#) on the proposals had been addressed. For ease of reference, we have included a copy of that paper in Appendix 2.
3. The Board had been broadly supportive of the Fee-Related proposals, as exposed, and there were no significant changes to those proposals. The Board confirmed that no compelling reason changes had been identified. However, the Board will consider inclusion of a cross reference to the New Zealand audit fee disclosure requirements established in FRS-44, noting that the NZASB has a current project to revise these disclosures.
4. The revision to the fee-related provisions of the Code, including a requirement for transparent disclosure about the fees paid to the auditor, for audit and other services (appropriately categorised), complement the revisions to the NAS provisions of the Code. Because of this, the Board agreed that a final standard would be approved at the time the Non-Assurance Services proposals are finalised in New Zealand. (i.e., there was no need to develop a NZ specific exposure draft).

¹ Refer agenda item 3.3 in the February 2021 Board papers

Activity in Australia

5. In May, the APESB, issued an [exposure draft amending APES 110](#)² to incorporate changes made by the IESBA and to address key recommendations from the PJC inquiry³. These amendments to the Code include:
 - Providing information on the different categories of services that may be provided by an auditor (Recommendation 3 of the PJC Inquiry)
 - Broadening the extant prohibition on audit partners being incentivised, either directly or indirectly for selling non-assurance services to their audit clients to now prohibit incentivisation for sales of non-assurance services to all audit clients of the firm (recommendation 5 of the PJC Inquiry)
6. The exposure draft also includes the proposed addition of a threshold in the extant AUST requirement to assess fee dependency on a referral source that refers multiple audit clients to a firm, an individual partner or an office within the firm.
7. The AUST paragraphs are presented in the Appendix 1 to this paper.

Action Requested

8. The Board is asked to:
 - NOTE the update; and
 - CONFIRM its previous decision to adopt the IESBA fee provisions with minimal change (as described in paragraph 3).

Material Presented

Agenda item 6.1

Board Meeting Summary Paper

² APES 110, *Code of Ethics for Professional Accountants (including International Independence Standards)*

³ Inquiry into the regulation of the auditing profession in Australia undertaken by the Parliamentary Joint Committee on Corporations and Financial Services (PJC Inquiry)

AUST Paragraphs

Paragraph 410.29 A1 included for context. The guidance in paragraph AUST 410.29.1 A1 is new. It is included in response to recommendation 3 of the PJC inquiry.

The view of the NZAuASB is that disclosure of the financial information is the responsibility of the preparer of financial statements, not the auditor. As such, the accounting standards should establish the disclosure requirements, not the Code of Ethics.

Public Disclosure of Fee-related Information

410.29 A1 In view of the public interest in the audits of **Public Interest Entities**, it is beneficial for stakeholders to have visibility about the professional relationships between the **Firm** and the **Audit Client** which might reasonably be thought to be relevant to the evaluation of the **Firm's Independence**. In a wide number of jurisdictions, there already exist requirements regarding the disclosure of fees by an **Audit Client** for both audit and services other than audit paid and payable to the **Firm** and **Network Firms**. Such disclosures often require the disaggregation of fees for services other than audit into different categories.

AUST 410.29.1 A1 **Firms** should consider the following categories of services for making disclosures in relation to fees received or receivable for **Professional Services** provided to **Audit Clients**:

- (a) Audit services - which includes:
- **Audit Engagements** and audits of **Related Entities** for **Audit Clients** that are **Public Interest Entities**;
 - **Audit Engagements** and audits of **Related Entities** for which the **Audit Client** has direct or indirect control; and
 - **Review Engagements** in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*.
- (b) Audit-related services - which are services provided by members of the **Audit Team** that is closely related to work performed for audit services in (a) above, such as:
- Reporting required to be provided by the external auditor by laws or regulations;
 - Reviews of interim financial information;
 - Reporting on regulatory returns (for example, reporting to the Australian Prudential Regulation Authority, or the auditor's report to ASIC on an Australian Financial Services licensee using Form FS 71);
 - Reporting to a regulator on client assets;
 - Reporting on government grants;
 - Reporting on internal financial controls when required by law or regulation; and
 - Additional audits or reviews performed on financial information and/or financial controls that have been authorised by **Those Charged with Governance**.

- (c) Other assurance services - comprise all Assurance Engagements other than (a) and (b) above. For example:
- audit and other services relating to public reporting as a reporting or investigating accountant on financial or other information of the audited entity in an investment circular or prospectus;
 - services, including private reporting that are customarily performed by the reporting or investigating accountant to support statements and disclosures made by the directors, in a prospectus or investment circular or, to support confirmations provided by the sponsor or nominated advisor; and
 - audit and other assurance services relating to public reporting on other information issued by the entity, such as reports on information in the front of annual reports not covered by the auditor's report on the financial statements.
- (d) Taxation Services - which comprises any Professional Activities performed by a Member relating to ascertaining a client's tax liabilities or entitlements or satisfying their obligations under taxation law, provided under circumstances where they can reasonably expect to rely on the Professional Activities. This includes:
- (i) preparation of a return, notice, statement, application or other document for lodgement with a revenue authority, and responding on behalf of a client to the revenue authority's requests for further information;
 - (ii) Subject to the prohibition in paragraph R604.10, preparation of tax calculations to be used as the basis for the accounting entries in the financial statements;
 - (iii) provision of tax planning and other tax advisory services; and
 - (iv) assisting a client in the resolution of tax disputes; and
- (e) Other services - which comprise any service not covered in (a) – (d) above.

AUST R411.4 is added in response to the PJC inquiry recommendation 5. It replaces extant paragraph R411.4 of the IESBA Code (and also PES 1) which requires that the firm not evaluate or compensate a key audit partner based on that partner's success in selling non-assurance services to the partner's audit client.

The proposed AUST requirement is broader, prohibiting the evaluation or compensation of a key audit partner based on that partner's success in selling non-assurance services to any audit client of the firm.

AUST R411.4 A Firm shall not evaluate or compensate a Key Audit Partner, either directly or indirectly, based on that partner's success in selling non-assurance services to any of the Audit Clients of the Firm. A Firm shall take reasonable steps to ensure that any profit-sharing arrangement of a Key Audit Partner is not a cross-subsidisation of the Audit Engagement by other services lines of the Firm or a mechanism for distributing indirect incentives to Key Audit Partners based on their ability to sell non-assurance services to the Firm's Audit Clients. This requirement does not preclude normal profit-sharing arrangements between partners of a Firm.

In paragraph AUST R410.14.1 the APESB proposes to change “a large proportion of the total fees” to “more than 20% of the total fees”. There is no equivalent requirement in PES 1.

AUST R410.14.1 When the total fees in respect of multiple **Audit Clients** referred from one source represent more than 20% of the total fees of the **Engagement Partner**, an **Office** of the **Firm** or the **Firm** expressing the audit opinions, the **Firm** shall evaluate the significance of the threat and apply safeguards when necessary to eliminate the threat or reduce it to an **Acceptable Level**.

AUST 410.14.1 A1 Another party or **Firm** may refer multiple **Audit Clients** to an **Engagement Partner**, an **Office** of a **Firm** or a **Firm**. The dependence on that source and concern about losing those clients creates a self-interest or intimidation threat. Paragraph 410.14 A3 provides examples of factors that may affect the significance of the threat and paragraph 410.14 A7 lists potential safeguards that may be applied.

For Reference: Extract from the February 2021 Board papers

IESBA Fee-Related Matters issues paper

Agenda item 3.3

1. This issues paper:
 - Provides an overview of the key issues raised in the consultation on the Fees proposals and how they were addressed by the IESBA in finalising the fees provisions: and
 - Highlights if, and how, matters arising from the NZAuASB's submission have been addressed.

Section 1: Key matters raised in response to IESBA's ED and how the IESBA has responded.

2. The IESBA received 64 comment letters in response to the Fees exposure draft.
3. Respondents generally supported the need to strengthen fee-related provisions in the Code and the direction of the proposed changes.

Definition of PIE

4. A number of respondents from a range of stakeholder groups pointed out that due to the ongoing IESBA project aimed at revisiting the PIE definition, there is a lack of certainty regarding the entities that will be covered by the provisions relating to PIE audit clients; accordingly, it is not possible for them to comment fully on the proposals in the ED as there might be issued for certain entities that they cannot yet envisage.
5. The focus of the task force has been on the principles and requirements that should apply to audits of PIEs, however defined, as compared to audits of non-PIEs. It will be for the PIE project to appropriately delineate the set of entities that should be considered PIEs, having regards to the additional or more stringent independence requirements that would apply to them. It is not appropriate for the fees (and NAS provisions) to be made conditional on how a PIE is defined.

Threats to Independence Created by Fees Paid by the Audit Client

6. There was wide agreement from respondents (including from the NZAuASB) that an inherent self-interest threat to independence is created by the audit client payer model. Several respondents questioned whether the threats from the audit client payer model are already addressed by compliance with regulatory requirements and professional standards, including the Code.
7. A firm's independence might be perceived to be impacted because the entity being audited is also the firm's client and pays its fees. However, the risks related to the audit client payer model are one of the main reasons independence standards and significant safeguards are in place to address the potential threats. This model is widely accepted by users of the financial statements.
8. The task force view is that the Code should recognise the fact that there is an inherent self-interest threat related to the audit client payer model. The purpose of this

acknowledgement is to raise the firms' awareness that the self-interest threat exists, and to provide guidance on how to evaluate and address it when it is not at an acceptable level.

9. Some respondents were of the view that risks inherent in the audit client payer model are already adequately addressed, accordingly, the self-interest threat is not a given in all cases.
10. The extant Code already includes requirements regarding the evaluation of threats. Some respondents argued that a specific requirement related to determining the level of threats to independence created by the fees proposed to an audit client is not necessary. Some expressed concern that the costs and documentation related to this requirement are not justified by any additional benefits.
11. The general documentation provision in the Code with respect to audit and review engagements requires documentation in particular when (a) safeguards are applied to address a threat, or (b) when a threat required significant analysis and the firm concluded that the threat was already at an acceptable level. The task force therefore does not believe that the proposed provisions regarding threats created by fees paid by the audit client will create an undue documentation burden.

Impact of Services Other than Audit Provided to an Audit Client

12. Respondents generally agreed with the proposition that the audit fee should be a standalone fee, and that it should not be considered as part of a spectrum of fees that might be charged to an audit client. A number of respondents had concerns or disagreed with the proposed wording of the requirement. The NZAuASB supported the requirement, noting that in New Zealand, outreach indicated that the level of audit fee is not influenced by the provision of services other than audit to an audit client, a position which is further supported by review of academic research in New Zealand.
13. Those who disagreed or had reservations mainly raised the issue that the requirement could be challenging to operationalise and enforce as many factors go into the determination of fees. Several respondents argued that it would be difficult to assess whether the provision of certain services "influenced" the audit fees as there would be too much subjectivity and it would be difficult to demonstrate compliance. Respondents suggested that such uncertainty could cast doubt on the robustness of this requirement.
14. The task force view is that the requirement sets a clear principle that firms should be mindful of when setting the level of audit fees. The Board's view is that realising any cost savings through the experience derived from the provision of services other than audit to the audit client does not constitute undue influence, rather it is part of the firm's normal business operations. Nevertheless, to better link the application material allowing a firm to take the cost savings from other services into consideration, the guidance is presented as an exception to the requirement.

Proportion of Fees for Services Other than Audit to Audit Fees

15. Overall, respondents agreed that a large proportion of fees for services other than audit to audit fees could create a threat to independence. Respondents, apart from some regulators, supported the Code not to include a threshold for what would be determined to be a large proportion, but allow firms to determine such proportion on a case-by-case basis.

16. Some regulatory respondents expressed concerns regarding not including an explicit threshold in the Code relative to the determination of the proportion of fees. In their views, not providing such a threshold could result in inconsistent application.
17. Some respondents were of the view that the proposed changes do not provide enough guidance on what constitutes a “large proportion”. They suggested that the Code include guidance or examples as to what would amount to a “large proportion of fees”.
18. In its response to the ED, the NZAuASB noted its position with respect to non-assurance services, i.e., the prohibition of all non-assurance services to audit clients that are public interest entities. Further the NZAuASB considered the ratio of fees for services other than audit to audit fee is oversimplified as it does not take into account the broader category of “audit related services” which may be required, for example, by a regulator, to be performed by the auditor, or it may not make sense for another practitioner to perform them.
19. In developing the proposals, the IESBA considered both including a threshold as a cap and as a trigger for the re-evaluation of threats. Early outreach activities indicated little or no support for establishing fee caps in the Code. Within the fees project, the IESBA explored whether to use a threshold as a trigger for a re-evaluation of the threats to independence. As the proportion of fees would be determinable also at a network level, the calculation of the exact ratio of fees for services other than audit to the audit fee would be a complex task, and firms might not be able to obtain all the necessary information in a timely manner.
20. The IESBA further considered that the proposed requirements regarding transparency of fees for services other than audit would mitigate the threats to independence created by a large proportion of fees for service other than audit to audit fees. Accordingly, the IESBA view is that a specific fee cap or other threshold would not be warranted.
21. Regarding the computation of the proportion of fees, many respondents raised that the determination of fees for services other than audit is not granular enough. They suggested that the IESBA consider introducing the term “audit-related services” in the Code. They also noted that the proposal did not recognise that depending on the nature of the service the level of the self-interest threat to the auditor’s independence might be different. It was therefore argued that it could be misleading including all services other than audit in the completion of the proportion of fees.
22. The task force is of the view that from the perspective of the self-interest threat created by a high proportion of fees for services other than audit, any type of fee is relevant to the computation of fees, even fees for audit related services. Furthermore, it would be impractical to specify which services are audit-related at a global level.
23. Several respondents raised that there might be practical and implementation challenges in complying with the provision at a network level as processes may not exist to capture fees for services other than audit charged by network firms for all audit clients and related entities. A few respondents questioned whether the determination of the proportion of fees for all audit clients should be required at a firm level, similar to the EU Regulation. Respondents also raised concerns regarding the challenges in determining the proportion of fees at a group level.
24. The task force agreed that the level of threats created in the case of fees for services provided by network firms or delivered to related entities, other than “downstream” related

entities, is usually lower and that this should be taken into account in the determination of whether the proportion of fees is high. The task force has added factors to consider in evaluating the level of threats created when fees for an auditor other any other engagement are paid by the audit client.

Fee Dependency on Non-PIE Audit Clients

25. A significant number of respondents had comments or concerns about the proposed threshold in the requirement or disagreed with the proposal. Commentators questioned whether it is necessary to set out an exact ratio in the case of non-PIE audit clients, others suggested that the proposed threshold is too high and could create the perception that such level of fee-dependency is acceptable up to 5 years.
26. The NZAuASB expressed the view that the 30% threshold is too high, and five years too long. High levels of fee dependency should be discouraged. The NZAuASB suggested that if the IESBA determines that a numerical threshold is necessary, 15% would be consistent with the requirements for public interest entities.
27. Many respondents were of the view that in the case of non-PIE audit clients, there is no need for the Code to include a bright line to require a re-evaluation of threats. Respondents were of the view that the introduction of a threshold may harm public perception and would convey the message that up until a certain threshold, threats created by fee dependency are at an acceptable level.
28. Some respondents expressed the view that the proposed threshold might be too low with regard o the fact that non-PIEs have minimal impact on the public interest. Some suggested the threshold be further loosened, e.g., 35% or 50%.
29. The task force view is that the proposal should aim to create a consistent approach regarding the expectations in the case of non-PIE audit client as applies to PIEs, while allowing greater latitude in the threshold and safeguards adopted than those applying in the case of PIEs. The task force believes that the proposed 30% threshold in conjunction with the 5-year horizon achieves some scalability, taking into account the different level of public interest in non-PIEs, and allows enough time for newly established firms to deal with fee dependency as they grow their practices.
30. The IESBA broadly supported retaining the approach proposed in the ED and agreed on balance that the 30% threshold for non-PIE clients would promote consistent application.
31. The task force believes that, unlike in the case of PIE audit clients, there is no need for the Code to set out a specific threshold for ending the engagement.
32. A number of respondents were of the view that requiring an external review in the case of a non-PIE audit client would create a significant burden, especially for SMPs. Some respondents felt that the introduction of two alternative courses of action -- a pre- and a post-issuance review -- adds unnecessary complexity and risks an inconsistent application of safeguards. They suggested the Code provide guidance as to when each type of review might be appropriate.
33. Others argued that only a pre-issuance review performed by a professional accountant would be an appropriate safeguard. Several respondents, including the NZAuASB, raised the need for clarification regarding the proposed external review. They felt it was unclear

whether it is an engagement quality review. If not, they wondered about the timing, scope, format of the review and qualifications, including objectivity, of the reviewer.

34. In the case of non-PIE audit clients, the IESBA proposed a model for addressing the threats similar to the extant Code's fee dependency model of PIE audit clients but allowing greater latitude in the threshold and safeguards adopted. The IESBA considered this would be a reasonable approach bearing in mind the nature of the threats, the special considerations relating to SMPs, and the public interest.
35. The task force considers the firm should make the determination regarding which option (either pre- or post-issuance review) to use applying appropriate judgement based on the facts and circumstances.

Fee Dependency on PIE Audit Clients

36. Respondents generally supported the enhanced provisions regarding fee dependency in the case of PIE audit clients. Many respondents supported the proposed requirement for the firm to cease to act as auditor if fee dependency continues beyond a specified period. However, several respondents raised that including a definite period in a global Code could have unintended consequences and create implementation challenges.
37. Some respondents suggested that the IESBA align the requirements with the relevant EU rules, and that the proposal should ensure the involvement of the audit committee in any decision in such situations.
38. Several respondents commented that the proposed EQR performed by a professional accountant who is not a member of the firm as the only possible safeguard is not practical. Others, including the NZAuASB, questioned the pre-issuance review equivalent of an EQR alongside the EQR for the audit of listed entities required by ISQM 1. They questioned whether these two should be separate reviews.
39. The task force view is that the proposed safeguards are already safeguards in the extant Code and are appropriate safeguards. No issues were identified during the fact-finding activities in relation to the application of the safeguards. Regarding the interaction between the proposed pre-issuance review and the EQR performed as part of the audit, these serve different objectives and are not performed by the same individuals.
40. Regarding the 5-year period, the task force believes that it provides a reasonable and balanced element to the approach to addressing the threats created by fee dependency at the PIE level, and harmonises with similar requirements already in place in some jurisdictions.

Transparency of Information Regarding Fees for Audit Clients that are PIEs

41. Respondents generally supported that enhanced transparency of fee-related information of PIE audit clients can serve to better inform the views and decisions of stakeholders about the auditor's independence. Many respondents, including regulators, supported the proposals. However, a significant number of respondents raised concerns or disagreed with the proposals, particularly in relation to public disclosure by the auditor.
42. Views expressed by the NZAuASB regarding public disclosure of fee-related information for a PIE audit client included:

- Requiring disclosure of fee-related information extends beyond the mandate of the IESBA; disclosure of financial information is the responsibility of the preparer of financial statements, not the auditor.
 - Encouraging the IESBA to raise concerns with the IASB.
 - There is no consistent location for disclosure of the required fee-related information. Lack of consistency in presentation of the information reduces its usefulness.
 - How are conflicts between the financial reporting framework requirements and the Code addressed?
 - It is not desirable for the auditor to be required to disclose information that the entity itself is not required to disclose.
 - More granular disclosures are necessary so that the information is more useful to users. Audit related services should be considered separately from other services. It would be useful to also disclose fees paid to other professional accountants for both assurance and non-assurance services to provide a fuller picture to users.
43. Respondents generally did not raise comments regarding the enhanced provision on communication of fee related information of PIE audit clients with those charged with governance.
44. While most respondents supported the proposals for enhanced transparency regarding fee-related information, many were of the view that providing such transparency is the responsibility of the client and/or legislature or regulators. They considered transparency of fee-related information as a corporate governance issue that should not be imposed on the auditor through the Code.
45. Several respondents also had concerns regarding how the proposed requirement would interact with pre-existing national laws and regulations. They raised that the firm, as the auditor, should not be required to disclose information that the entity itself is not required to disclose by national laws and may not even have consent to disclose.
46. Several respondents were of the view that disclosing fee-related information in the auditor's report is not appropriate.
47. The task force agrees with respondents that disclosure of fee-related information would be best presented by the audit client. The proposals are intended to support this position and require the disclosure by the auditor only in cases when it is not disclosed by the client. Therefore, if the fee-related information is not disclosed by the client, the first step the firm should take is to discuss this situation with the client. The task force proposes changes to the proposal to emphasize this approach and clarify that the firm is expected to discuss the benefit to the client's stakeholders of the client making such disclosures.
48. The IESBA broadly supported promoting global transparency at the earliest time possible. With regard to suggestions to approach the IASB and IOSCO, the task force considered that in the former case, disclosure of fee-related information is unlikely to be seen as a financial reporting issue. In the latter case, there is a limitation in that fact that IOSCO's remit is

focused only on listed entities; nevertheless, the task force believes there is merit in raising the matter with IOSCO for its consideration.

49. The task force acknowledged the concerns raised regarding disclosure in the audit report. After reflection, the task force has proposed a more flexible approach regarding how to achieve transparency by the firm. The task force has proposed that firms could disclose fee-related information in a manner deemed appropriate for the circumstances, e.g., the firm's website and publications such as a transparency report, audit quality report, audit report and other targeted communication to specific stakeholders.
50. The task force is of the view that non-disclosure of audit fee information could affect the firm's independence, particularly independence in appearance. Therefore, non-disclosure would constitute a breach of the independence provisions of the Code.
51. The IESBA has amended the proposals in respect of public disclosure for fee-related information:
 - To provide context of the need to disclose fee information.
 - Where laws and regulations do not require disclosure by the entity, require the firm to discuss with those charged with governance the benefits of making such disclosures.
 - Providing examples of appropriate ways for the firm to disclose the fee information if the audit client does not.
 - Clarified the proposals as they apply to group audit situations, including adding exceptions to the disclosure/communication requirements in certain circumstances.

Way Forward

52. The Board was broadly supportive of the fees proposals as exposed and there has been no significant change to those proposals. We have not identified any compelling reasons to change the IESBA proposals; accordingly, we recommend adopting the international standard. Does the Board agree?