

## Exposure Draft

January 2017

Comments due: April 25, 2017

*International Ethics Standards Board  
for Accountants®*

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# Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments

**IESBA**

International  
Ethics Standards  
Board for Accountants®



This Exposure Draft was developed and approved by the International Ethics Standards Board for Accountants® (IESBA®).

The IESBA is a global independent standard-setting board. Its objective is to serve the public interest by setting high-quality ethics standards for professional accountants worldwide and by facilitating the convergence of international and national ethics standards, including auditor independence requirements, through the development of a robust, internationally appropriate *Code of Ethics for Professional Accountants™* (the Code).

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

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## REQUEST FOR COMMENTS

This Exposure Draft, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 2 and Related Conforming Amendments](#) (Safeguards ED-2), sets out the IESBA's proposals in Phase 2 of the Safeguards project. It also explains the rationale for the revisions to the non-assurance services section of the extant Code (Proposed Section 600, *Provision of Non-assurance Services to an Audit Client* and Section 950, *Provision of Non-assurance Services to an Assurance Client*); and the proposed conforming amendments arising from the Safeguards project as these relate to the text of Phase 1 of the Structure of the Code project ("Structure project"). Proposed conforming amendments as these relate to the text of Phase 2 of the Structure project are presented in gray text in the January 2017 Exposure Draft: [Improving the Structure of the Code of Ethics for Professional Accountants—Phase 2](#) (Structure ED-2).

The proposals in Safeguards ED-2 and the gray text in Structure ED-2 may be modified in light of comments received before being issued in final form. **Comments are requested on the Safeguards Phase 2 proposals, including on the gray text in Structure ED-2, by April 25, 2017.**

Respondents are asked to submit their comments electronically through the IESBA website, using the "[Submit a Comment](#)" link. Please submit comments in both PDF and Word files. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although the IESBA prefers that comments are submitted via its website, comments can also be sent to Ken Siong, IESBA Technical Director at [KenSiong@ethicsboard.org](mailto:KenSiong@ethicsboard.org).

This publication may be downloaded from the IESBA website: [www.ethicsboard.org/restructured-code](http://www.ethicsboard.org/restructured-code). The approved text is published in the English language.

**PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE  
CODE—PHASE 2 AND RELATED CONFORMING AMENDMENTS**

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## EXPLANATORY MEMORANDUM

### I. Introduction

1. This memorandum provides background to, and an explanation of, the proposed changes to the Code pertaining to the provision of non-assurance services (NAS) to audit and other assurance clients in Sections 290 and 291 of the extant Code<sup>1</sup> (numbered proposed Sections 600 and 950 in the restructured Code<sup>2</sup>); and the proposed conforming amendments arising from the Safeguards project.
2. The IESBA approved these proposed changes for exposure at its December 2016 meeting.

### II. Background

3. Responsive to concerns raised by stakeholders, in particular by some regulators, in January 2015 the IESBA approved the Safeguards project with the aim of improving the clarity, appropriateness, and effectiveness of the safeguards in the Code. For example, it was noted that certain safeguards in the Code may be inappropriate or ineffective, and that some safeguards merely duplicate existing requirements imposed by quality control and auditing standards or existing best practice and are not tailored to address the specific threats to independence or compliance with the fundamental principles. Some regulators suggested that the IESBA should:

- (a) Clarify the safeguards that are not clear in the extant Code and eliminate those that are inappropriate or ineffective;
- (b) Better correlate a safeguard with the threat it is intended to address; and
- (c) Clarify that not every threat can be addressed by a safeguard.

In addition, some stakeholders within the small and medium practices (SMP) community suggested that the IESBA consider the practical challenges currently faced by some SMPs as a result of limited resources when reviewing the safeguards in the extant Code.

4. The Exposure Draft, [Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#) (Safeguards ED-1) was approved and released in December 2015. Fifty-three comments letters were received from various respondents, including regulators and audit oversight authorities, national standard setters, firms, public sector organizations, preparers, IFAC member bodies and other professional organizations. There was general support for the IESBA's proposals, as well as some suggested revisions and comments. At its December 2016 meeting, the IESBA agreed in principle the text of Phase 1 of the Safeguards project using the new structure and drafting conventions established under Phase 1 of the Structure project, taking into account feedback on Safeguards ED-1 and input from the IESBA Consultative Advisory Group (CAG). IESBA Staff has prepared a document, [Basis for Agreement in Principle for Proposed Revisions Pertaining to Safeguards in the Code—Phase 1](#) (Safeguards BFAP), to summarize the IESBA's conclusions with respect to Phase 1 of the project and to explain the rationale for them. Highlights of the

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<sup>1</sup> Phase 2 of the Safeguards project includes revisions to the following paragraphs in the extant Code:

- 290.100–290.101, *Application of the Conceptual Framework Approach to Independence*.
- 290.154–290.214, *Provision of Non-Assurance Services to an Audit Client*.
- 291.138–291.148, *Provision of Non-Assurance Services to an Assurance Client*.
- Conforming amendments arising from the Safeguards project to other sections of the Code.

<sup>2</sup> Sections 600, *Provision of Non-assurance Services to an Audit Client* and 950, *Provision of Non-assurance Services to an Assurance Client*

Safeguards BFAP are included in Section III.

5. Safeguards ED-2 reflects the IESBA's conclusions under Phase 1 of the Safeguards project and Phase 1 of the Structure project. Consistent with Safeguards Phase 1, the proposals for Phase 2 have been drafted in accordance with the new structure and drafting conventions for the Code. Additional information about the IESBA's conclusions with respect to Phase 1 of the Structure project are included in the document [Basis for Agreement in Principle for Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1](#) (Structure BFAP). This Structure BFAP also explains the rationale for the IESBA's conclusions with respect to the proposals in the December 2015 Exposure Draft: [Improving the Structure of the Code of Ethics for Professional Accountants—Phase 1](#) (Structure ED-1).
6. Consistent with the approach used in Structure ED-1, Safeguards ED-2 includes comments alongside each paragraph to explain the derivation of the proposed provisions, i.e., whether they are from particular paragraphs in the extant Code or represent new material. These comments are also included in the staff-prepared [compilation of the proposed restructured Code](#) as of January 2017 to facilitate review and comparison of the material in the proposed restructured Code and the extant Code. In response to requests for an understanding of how Phases 1 and 2 of the Structure and Safeguards projects will interact, IESBA Staff has prepared several resources including, in addition to the compilation of the proposed restructured Code as of January 2017, the Safeguards BFAP, the Structure BFAP, and a [mapping table](#) to facilitate tracking of the changes from the extant Code to the proposed restructured Code. Those resources are available at: [www.ethicsboard.org/restructured-code](http://www.ethicsboard.org/restructured-code).
7. The IESBA has discussed its proposals with its CAG throughout this project.

### III. Highlights of Safeguards Phase 1

8. Phase 1 of the Safeguards project comprises revisions to the provisions in the extant Code relating to the conceptual framework (i.e., restructured Section 120<sup>3</sup>) and the application of the conceptual framework to professional accountants (PAs) in public practice (restructured Section 300<sup>4</sup>). Phase 1 of the project establishes an enhanced and more robust conceptual framework with more explicit requirements and application material to explain how to identify, evaluate and address threats to compliance with the fundamental principles.<sup>5</sup> This enhanced conceptual framework:
  - (a) Explicitly states that a PA is required to address threats to compliance with the fundamental principles by eliminating them or reducing them to an acceptable level by:<sup>6</sup>
    - (i) Eliminating the circumstances, including interests or relationships, that are creating the threats;
    - (ii) Applying safeguards, where available and capable of being applied; or
    - (iii) Declining or ending the specific professional activity.
  - (b) Clarifies the safeguards in the extant Code and no longer includes safeguards that the IESBA determined were inappropriate or ineffective. The enhanced conceptual framework:
    - (i) States that safeguards are actions, individually or in combination, that the PA takes that

<sup>3</sup> Section 120, *The Conceptual Framework* (Part 1, Complying with the Code, Fundamental Principles and the Conceptual Framework)

<sup>4</sup> Section 300, *Applying the Conceptual Framework – Professional Accountants in Public Practice* (Part 3, Professional Accountants in Public Practice)

<sup>5</sup> Section 120, paragraphs R120.6, R120.7 and R120.10

<sup>6</sup> Section 120, paragraph R120.10

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effectively reduce threats to compliance with the fundamental principles to an acceptable level;<sup>7</sup>

- (ii) Explains that certain conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization, that can enhance the PA acting ethically and which might also impact the identification and evaluation of threats to compliance with the fundamental principles, are no longer safeguards.<sup>8</sup> In contrast to the extant Code, those conditions, policies and procedures are no longer characterized as safeguards because they do not meet the new description of safeguards in the enhanced conceptual framework;
  - (iii) Provides improved examples of actions that might be safeguards to address specific threats and provides a link between those examples and the threats they are intended to address; and
  - (iv) Includes new application material that explains that there are some situations in which threats can only be addressed by declining or ending the specific professional activity. This is because the circumstances that created the threats cannot be eliminated and safeguards are not capable of being applied to reduce the level of the threat to an acceptable level.<sup>9</sup>
- (c) Includes new requirements to assist PAs in evaluating and addressing threats. Specifically:
- (i) In evaluating threats, PAs are required to consider new information or changes in facts and circumstances. This means that if a PA becomes aware of new information or changes in facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the accountant is required to re-evaluate and address that threat accordingly. New application material explains that remaining alert throughout the professional activity assists the PA in determining whether new information has emerged or changes in facts and circumstances have occurred. The IESBA's agreed-in-principle text also explain that if new information results in the identification of a new threat, the PA is required to evaluate and, as appropriate, address this threat<sup>10</sup>
  - (ii) In addressing threats, PAs are required to form an overall conclusion about whether the actions that they take, or intend to take, to address the threats will eliminate or reduce them to an acceptable level. In forming this overall conclusion, PAs are required to review any significant judgments made or conclusions reached, and use the reasonable and informed third party test.

*Reasonable and Informed Third Party*

9. Phase 1 of the project emphasizes the existing requirement for PAs to use the reasonable and informed third party test when applying the conceptual framework. It also includes new application material to explain the reasonable and informed third party test.<sup>11</sup> This new application material clarifies that the reasonable and informed third party test is:

- A consideration by the PA about whether the same conclusions would likely be reached by another

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<sup>7</sup> Section 120, paragraph 120.10 A1

<sup>8</sup> Section 120, paragraphs 120.6 A1 and 120.7 A2

<sup>9</sup> Section 120, paragraph 120.10 A2

<sup>10</sup> Section 120, paragraphs R120.9, 120.9 A1 and 120.9 A2

<sup>11</sup> Section 120, paragraphs R120.5 and 120.5 A1

party.

- Made from the perspective of a “reasonable and informed third party,” who weighs all the relevant facts and circumstances that the accountant knows, or could reasonably be expected to know, at the time the conclusions are made.
10. The IESBA concluded that the reasonable and informed third party is a concept and is not a real person. However, because of the importance that the concept has in applying the requirements in the Code, the IESBA believes that it is important to establish a clear description of the attributes for this “reasonable and informed third party” to help PAs in applying the test. The IESBA agrees with its CAG and some respondents to Safeguards ED-1 that the “reasonable and informed third party” does not need to be a professional accountant. However, the IESBA also believes that the “reasonable and informed third party” needs to possess the relevant knowledge and experience, to understand and evaluate the appropriateness of the accountant’s conclusions in an impartial manner.
11. The IESBA believes that the enhanced conceptual framework will better support all PAs in fulfilling their responsibility to act in the public interest, including with respect to audits of financial statements, and thereby will contribute to support audit quality.

#### IV. Significant Matters

##### Safeguards in NAS Section of the Code

12. Specific to Sections 600 and 950, the proposals also build on an already enhanced and more robust set of NAS requirements and application material set out in the IESBA’s April 2015 Release, [Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients](#) (2015 NAS Release).<sup>12</sup> The proposals also incorporate several suggestions that the IESBA received from respondents to the October 2014 Structure Consultation Paper: [Improving the Structure of the IESBA Code](#), and the May 2014, Exposure Draft: [Proposed Changes to Certain Provisions of the Code Addressing Non-Assurance Services for Audit Clients](#).
13. The focus of the proposed revisions in Sections 600 and 950 is to clarify the safeguards in the NAS sections of the Code and, more broadly, enhance the requirements for addressing threats that are created by providing NAS to audit and assurance clients. Accordingly, there have been no changes to the specific types of NAS addressed in the Code.
14. Many of the “examples of safeguards” in the NAS sections of the Code have been retained. However, Sections 600 and 950 reflect several clarifications and refinements to:
- (a) Explain that the examples are “actions that might be safeguards” to address the threat created by providing the specific type of NAS. This change is intended to refocus firms and network firms on being mindful of other actions that might be more appropriate to address specific threats, depending on the facts and circumstances of each specific engagement and NAS. For example, a

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<sup>12</sup> The 2015 NAS Release became effective in April 2016 and:

- Prohibits auditors from assuming management responsibility when providing NAS to audit clients;
- Removes provisions that permitted an audit firm to provide certain bookkeeping and taxation services to public interest entity (PIE) audit clients in emergency situations;
- Introduces new and clarified application material regarding what constitutes management responsibility; and
- Clarifies guidance regarding the concept of “routine or mechanical” services relating to the preparation of accounting records and financial statements for audit clients that are not PIEs.



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firm might decide that it might be more appropriate to address a threat created by providing a NAS to an audit or other assurance client by:

- (i) Eliminating the circumstance, including interests or relationships, that is creating the threat; or
  - (ii) Declining or ending the specific professional activity;
- (b) Clarify that seeking advice from another party no longer meets the revised definition of a safeguard;<sup>13</sup> and
- (c) Describe similar safeguards in a consistent manner.
15. The IESBA has carefully reviewed the examples of safeguards in the NAS and other sections of the extant Code to ensure that they align with the revised description of a safeguard. It has also endeavored to identify other actions that might qualify as safeguards in the different NAS situations or other contexts. However, the IESBA acknowledges that some firms, particularly those in the SMP community, might continue to face practical challenges in applying appropriate safeguards given resource constraints. The IESBA welcomes input from respondents regarding additional actions they believe might meet the revised description of a safeguard in the different situations.

**Matters Relevant to Section 600**

*Avoiding Management Responsibilities*

16. Consistent with the requirement in the extant Code, the proposals emphasize that firms and network firms “shall not assume management responsibility” for their audit clients. With a new heading titled “Avoiding Management Responsibilities” to precede those requirements and application material, the IESBA intends for this overarching prohibition to be more prominent in the Code. Section 600 continues to include application material to describe management responsibilities and provides examples of activities that would be considered a management responsibility.<sup>14</sup> As in the extant Code, Section 600 indicates that assuming a management responsibility not only creates self-review and self-interest threats, but also creates familiarity threats because the firm becomes too closely aligned with the views and interests of management.
17. Section 600 explains that providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. Section 600 retains the requirement in the extant Code for the firm or network firm to be satisfied that client management makes all judgments and decisions that are the proper responsibility of management in order to avoid the risk of assuming management responsibility when providing a NAS to an audit client.<sup>15</sup>

*Considerations for Certain Related Entities*

18. The IESBA deliberated the exception in the extant Code that permits firms or network firms to assume management responsibility or provide NAS that would otherwise be prohibited to certain related entities of the client on whose financial statements the firm will express an opinion provided that certain conditions

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<sup>13</sup> Extant paragraphs 290.180, 290.186, 290.187, 290.205, 290.207, 290.211 and 290.212 include providing advice as an example of a safeguard.

<sup>14</sup> Section 600, paragraphs R600.7–600.7 A3

<sup>15</sup> Section 600, paragraphs 600.7 A4 and R600.8

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are met.<sup>16</sup> The IESBA reviewed those conditions and concluded that they continue to provide a sufficient basis to retain the exception. Accordingly, the changes to this requirement were limited to restructuring and are not intended to change the meaning of the requirement in the extant Code.

*Enhanced General Provisions for Providing NAS to Audit Clients*

19. The proposals clarify that when providing NAS to audit clients, 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. In addition to enhanced general requirements and application material to identify, evaluate and address threats created by providing NAS more broadly, the proposals include specific requirements and application material relevant to providing certain NAS to audit clients and indicate the type of threats that might be created as a result.
20. Section 600:
- (a) Includes clear and explicit statements that, in certain situations, the Code prohibits firms and network firms from providing certain NAS to an audit client because there can be no safeguards to address the threats to independence;
  - (b) Aligns to the enhancements developed in Phase 1 of the project (see paragraphs below under the heading "Conforming Amendments Arising from the Safeguards Project)". Accordingly, the proposals:
    - (i) Include guidance regarding factors that might be relevant in evaluating the level of any threat created by providing a NAS. Those factors are relevant only when there are existing conditions, policies and procedures established by the profession, legislation, regulation or the firm; and
    - (ii) Clarify examples of actions that might be safeguards to address threats created by providing a specific NAS. This approach is intended to emphasize that there might be other actions that, depending on the facts and circumstances, might be more appropriate to address the threat created by providing a specific NAS to an audit client;<sup>17</sup> and
  - (c) Includes new application material to remind firms and network firms to consider the combined effect of threats created from providing multiple NAS to the same audit client.

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

21. In developing Safeguards ED-1, the IESBA was of the view that the words "material," "significant" or "significance," the meaning of which is consistent with the concept of materiality as addressed in the International Standards on Auditing (ISAs), are not appropriate for establishing the overarching requirements and principles about threats and safeguards. The IESBA continues to hold this view. Further, the IESBA has concluded that additional material is needed in the Code to clarify the meaning of those words in the context of providing NAS to audit clients.<sup>18</sup> Accordingly, Section 600 includes new application material with respect to materiality in relation to an audit client's financial statements. This

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<sup>16</sup> Section 600, paragraph R600.10

<sup>17</sup> Other actions that might address threats as set out in paragraph R120.10 are to:

- (a) Eliminate the circumstance, including interests or relationships, that is creating the threat(s); or
- (b) Decline or end the specific professional activity.

<sup>18</sup> See Section 600, paragraph 600.5 A1.

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new application material draws on relevant information that was included in the 2012 [IESBA Staff Q&A, Implementing the Code of Ethics—Part II](#) and includes a reference to ISA 320.<sup>19</sup>

22. The new application material also explains that the determination of materiality involves the exercise of professional judgment, is impacted by both quantitative and qualitative factors, and is affected by perceptions of the financial information needs of users. This new application material for “Materiality in Relation to an Audit Client’s Financial Statements” is relevant to Section 600 only. Therefore, the use of the words “significant” or “significance” in the rest of the Code, for example in Section 510,<sup>20</sup> is consistent with the concept of materiality as discussed in ISA 320.
23. The IESBA notes that some stakeholders are of the view that a broader consideration of how the concept of materiality should apply in the context of the full Code, and not just NAS, is needed. However, the IESBA is of the view that undertaking such an initiative goes beyond the scope of the Safeguards project and would require coordination with others, including the IAASB and the International Accounting Standards Board.

*Requirements and Application Material in NAS Subsections*

24. Drawing from the conclusions reached in its Structure project, the IESBA developed a consistent layout for the material in each of the subsections in Section 600. Consistent with the extant Code, Section 600 includes requirements and application material addressing the provision of certain types of NAS to audit clients. However, those requirements and application material are now consistently positioned in Section 600 as follows:
  - (a) General application material that supports the overarching requirements in the conceptual framework.
  - (b) Requirements and application material for audit clients that are not PIEs.
  - (c) Requirements and application material for audit clients that are PIEs.<sup>21</sup>
25. For those subsections that include requirements that prohibit the provision of certain NAS in certain circumstances (i.e., Sections 601, 603, 604, 605, 606, 608, 609 and 610), a statement is included as part of the introduction section to clarify that in some circumstances the specific NAS is expressly prohibited because the threats cannot be eliminated, or there can be no safeguards to reduce the threat to an acceptable level. In developing the new layout in Section 600, duplicative material from the NAS section of the extant Code was deleted.
26. Some of the proposed revisions in the subsections in Section 600 result from restructuring while others are a change in meaning of the extant Code. Many of the substantive revisions are already discussed above. Below is a summary of the remaining substantive revisions in Section 600 with respect to specific types of NAS as well as highlights of where there have been no substantive changes:
  - (a) Subsection 601, *Accounting and Bookkeeping Services* – Drawing from the material in the extant Code, the IESBA has developed new application material in 601.3 A1 to describe the nature of accounting and bookkeeping services.<sup>22</sup> This was done in part in support of a more streamlined

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<sup>19</sup> ISA 320, *Materiality in Planning and Performing an Audit*

<sup>20</sup> Section 510, *Financial Interests*

<sup>21</sup> The IESBA plans to consider in future electronic enhancements to facilitate navigation to relevant material in the restructured Code, for example, to focus on the requirements and application that are applicable to PIEs.

<sup>22</sup> Extant paragraph 290.165

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title in comparison to the one in the extant Code, "Accounting and Bookkeeping Services, Including Preparing Accounting Records and Financial Statements."

- (a) Subsection 602, *Administrative Services* – The IESBA revisited its discussions about whether the Code should include a stand-alone administrative services subsection, or whether the material should be subsumed into another subsection. The IESBA concluded that having a stand-alone subsection for administrative services makes the Code clearer because administrative services are a type of NAS that might be provided by firms and network firms. The IESBA noted that in some circumstances, firms and network firms might often provide administrative services in conjunction with other types of NAS. In such circumstances, the IESBA is of the view that the enhanced general requirements in Section 600 and the other relevant NAS subsections might also apply.
- (b) Subsection 603, *Valuation Services* – No substantive revisions.
- (c) Subsection 604, *Taxation Services* – Consistent with the extant Code, this subsection explains that taxation services comprise a broad range of services, including tax return preparation, tax calculation for the purpose of preparing the accounting entries, tax planning and other tax advisory services, and assistance in the resolution of tax disputes. Paragraph 604.4 A2 includes a list of factors that are relevant in evaluating the level of threats created by providing all taxation services. Subsection 604 also includes additional application material with factors that are relevant in evaluating the level of threats created by providing each specific type of tax services.<sup>23</sup> For clarity, a reference to the general factors has been added to the paragraph listing the factors for the specific types of tax services.
- (d) Subsection 605, *Internal Audit Services* – No substantive revisions.
- (e) Subsection 606, *Information Technology (IT) Systems Services* – New application material regarding factors that are relevant in evaluating the level of threats created by providing IT systems services to an audit client has been added in paragraph 606.4 A1.
- (f) Subsection 607, *Litigation Support Services* – A new application material paragraph with factors that are relevant in evaluating the level of threat created by providing litigation support services to an audit client has been added in paragraph 607.4 A1.
- (g) Subsection 608, *Legal Services* – No substantive revisions.
- (h) Subsection 609, *Recruiting Services* – The extant Code prohibits firms and network firms from providing the following recruiting services to an audit client that is a PIE with respect to a director or officer of the entity or senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion:<sup>24</sup>
  - (i) Searching for or seeking out candidates for such positions; and
  - (ii) Undertaking reference checks of prospective candidates for such positions.

The extant Code is silent about whether this NAS could be provided to audit clients that are not PIEs, but notes that "firms may generally provide recruiting services such as reviewing the professional qualifications of a number of applicants and providing advice on their suitability for the post; interviewing candidates and advising on a candidate's competence for financial accounting,

<sup>23</sup> Section 600, paragraphs 604.7 A1, 604.10 A1, 604.13 A1 and 604.16 A3

<sup>24</sup> Extant paragraph 290.210

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administrative or control positions.”<sup>25</sup> The IESBA has retained the latter general provision in paragraph 609.3 A1.

Taking into account the views of some SMPs, the IESBA extensively deliberated whether there are safeguards that might be capable of reducing self-interest or familiarity threats created by providing an audit client with recruiting services with respect to a director or officer of the entity or senior management for certain positions (i.e., 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). The IESBA concluded that safeguards are not capable of reducing those threats, and accordingly has extended the prohibition in the extant Code to all entities, thereby including entities that are not PIEs.

- (i) Subsection 610, *Corporate Finance Services* – No substantive revisions.

**Matters Relevant to Section 950**

27. Consistent with the approach in the extant Code, Section 950, which is applicable with respect to the provision of NAS to assurance clients, mirrors certain provisions in Section 600. Accordingly, the IESBA concluded that it is appropriate to incorporate in Section 950 proposed enhancements that are similar to most of those apply when providing a NAS to an audit client. Highlights of the substantive revisions in Section 950 include:

- Clarification regarding the applicability of the conceptual framework and the need for firms to comply with the fundamental principles, in addition to independence requirements, when providing NAS to assurance clients.
- New general provisions to assist firms identify, evaluate and address threats created by accepting and providing NAS to assurance clients, in particular when the NAS is not explicitly referenced in the Code.
- New application material to explain the concept of materiality in relation to an assurance client’s information with a reference to the IAASB’s ISAE 3000 (Revised).<sup>26</sup>
- More prominent requirements and application material for avoiding the assumption of management responsibilities.
- New application material to remind firms to consider the combined effect of threats created from providing multiple NAS to the same assurance client.

**Conforming Amendments Arising from the Safeguards Project**

28. As noted above, the Safeguards project has given rise to conforming amendments to other sections of the Code. Conforming amendments that relate to the text included in Phase 1 of the Structure project are included in this ED. Conforming amendments that relate to the text of Phase 2 of the Structure project are included in the gray text in Structure ED-2. The IESBA welcomes respondents’ feedback on both sets of conforming amendments.

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<sup>25</sup> Extant paragraph 290.209

<sup>26</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information*

*Breaches Verses Threats to the Fundamental Principles*

29. The IESBA noted that the term “breach of the fundamental principles” is used differently in the extant Code. For example, in the Independence sections of the Code, the term “breaches” is used to refer to circumstances when a PA or firm has not complied with a specific fundamental principle. However, in proposed Section 270,<sup>27</sup> the term is used as a short-hand to mean “threats to compliance with the fundamental principles.” To avoid any confusion, as part of the proposed conforming amendments, this short-hand is no longer used. The word “breaches” is therefore used in the restructured Code to refer to only to situations when a PA, firm or network firm has not complied with the fundamental principles.

*Conforming Amendments As a Result of Enhancements to the Conceptual Framework*

30. Many of the conforming amendments arising from the Safeguards project result from the enhancements to the conceptual framework (i.e., Phase 1 of the project). Those conforming amendments are also necessary in order to be consistent with new structure and drafting conventions for the Code. Those conforming amendments are to:
- (a) Remove duplicate requirements and application material that are already covered in the conceptual framework set out in Section 120. As noted in the explanatory memorandum to Structure ED-2, each section in the restructured Code includes an introduction that explains that the requirements and application material in the conceptual framework are also applicable.
  - (b) Replace the words “...significance of the threat...” with “...level of the threat...”. As explained in the Safeguards BFAP, the words “significance” and “significant” are no longer used to describe threats. Section 120 defines acceptable level as “a level at which a PA using the reasonable and informed third party test would conclude that the accountant complies with the fundamental principles.” The IESBA believes that the Code is clearer with requirements and application material that make it clear that threats either need to be eliminated or reduced to an acceptable level. Therefore, the enhanced conceptual framework no longer includes references to the phrase “higher level of threat.”
  - (c) Re-characterize the “examples of safeguards” in the extant Code that are established by the profession, legislation, regulation, the firm, or the employing organization to “factors that are relevant in evaluating the level of threats.” As part of Phase 1 of the project, those “examples of safeguards” were re-characterized as “conditions, policies and procedures established by the profession, legislation, regulation, the firm, or the employing organization that might impact the evaluation of the level of threats.”
  - (d) Clarify the various types of actions that can be taken to address threats in accordance with the new requirement to address threats. “Examples of safeguards” from the extant Code that continue to meet the new description of safeguards are included in Safeguards ED-2 as either:
    - (i) Examples of actions that might be safeguards to address a specific threat; or
    - (ii) Other actions that might eliminate the threat, i.e., the actions taken to either eliminate the circumstances (including the interests or relationships that are creating the threat) or decline or end the specific professional activity.

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<sup>27</sup> Proposed restructured Section 270, *Pressure to Breach the Fundamental Principles*

*Conforming Amendments Relating to Part 2 of the Restructured Code*<sup>28</sup>

31. Questions have been raised about whether the requirements and application material in the conceptual framework set out in Section 120 should apply in a different way to PAs in business (PAIBs). The IESBA is of the view that the conceptual framework applies in the same way to PAIBs as it does to all other PAs. This is clarified in paragraphs 200.1–200.4 in Chapter 1 of Structure ED-2. Section 200<sup>29</sup> emphasizes, and in some cases repeats, certain material in the conceptual framework that the IESBA believes is helpful for PAIBs to identify, evaluate and address threats (for example, see paragraphs 200.6 A1, 200.6 A2–200.7 A2).

Pressure to Breach the Fundamental Principles

32. In proposed Section 270, most of the “factors for determining whether the pressure could result in a breach of the fundamental principles” in the [Part C Phase 1 close-off document](#), are presented as “factors that are relevant to evaluating the level of threats created by pressure.” However, Section 270 clarifies that some of the factors that were included in the Part C Phase 1 close-off document are not really “factors relevant to evaluating the level of threats created by pressure.” Rather, they are useful considerations to assist PAIBs determine whether there are conditions, policies and procedures established by legislation, regulation or the employing organization that might help them understand the level of threats.<sup>30</sup> For example, discussions and consultations with others were included in the Part C close-off document as factors for determining whether pressure could result in a breach. As a result of the Safeguards project, those factors have been re-characterized. The same is true for some of the examples of actions that the PAIB may consider when the PAIB determines that the pressure would result in a breach of the fundamental principles.
33. Paragraph R270.5 is revised so that it is more closely aligned with the requirement for addressing threats in the conceptual framework.<sup>31</sup> As in the Part C Phase 1 close-off document, Section 270 does not include examples of actions that might be safeguards to reduce threats created by pressure. The proposals clarify that PAIBs’ requests for a restructuring or segregation of certain responsibilities and duties so that the accountant is no longer involved with the individual or entity exerting the pressure, are actions that might eliminate threats created by pressure.

**V. Project Timetable and Effective Date**

34. Given that safeguards are pervasive to the Code, the IESBA has determined to align the project timetable and proposed effective date for the revisions relating to safeguards with the proposed effective dates for the restructured Code.
35. The explanatory memorandum to Structure ED-2 and the [January 2017 IESBA Update](#) notes that the IESBA anticipates completing restructuring the Code in December 2017. Subject to the restructuring work progressing as planned, the IESBA proposes that:
- Parts 1,2, 3 and 4B of the restructured Code be effective on June 15, 2019; and
  - Except for restructured Sections 540 and 940 as noted below, Part 4A be effective for audits of financial statements for periods beginning on or after June 15, 2019.

<sup>28</sup> Part 2, *Professional Accountants in Business*

<sup>29</sup> Section 200, *Applying the Conceptual Framework – Professional Accountants in Business*

<sup>30</sup> See Section 270, paragraphs 270.4 A3–270.4 A5.

<sup>31</sup> The requirement for addressing threats in the conceptual framework is set out in paragraph R120.10.

EXPLANATORY MEMORANDUM: SAFEGUARDS PHASE 2

Early adoption will be permitted.

36. Subject to the transitional provision below which is explained in the [Basis for Conclusions](#) for the revised long association provisions, the IESBA determined that:
- Section 540 be effective for audits of financial statements for periods beginning on or after December 15, 2018; and
  - Section 940 be effective as of December 15, 2018.

Early adoption will be permitted in both cases.

Paragraph R540.18 will have effect only for audits of financial statements for periods beginning prior to December 15, 2023. This will facilitate the transition to the required cooling-off period of five consecutive years for engagement partners in those jurisdictions where the legislative body or regulator (or organization authorized or recognized by such legislative body or regulator) has specified a cooling-off period of less than five consecutive years.

37. The January 2017 IESBA Update includes a further discussion of the timing of the restructuring work and the proposed effective dates for the restructured Code.
38. The IESBA encourages national standard setters and others to start translating the [staff-prepared compilation](#) of the restructured Code as of January 2017, where necessary, in order to make an early start to implementation considerations. As appropriate, additional resources may be made available on the IESBA website to facilitate implementation when the restructuring work is completed.

## VI. Guide for Respondents

39. The IESBA welcomes comments on all matters addressed in Safeguards ED-2, but especially those identified in the *Request for Specific Comments* below. Comments are most helpful when they refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make specific suggestions for any proposed changes to wording. When a respondent agrees with proposals in this ED, it will be helpful for the IESBA to be made aware of this view.

### **Request for Specific Comments**

#### *Section 600, Provision of Non-Assurance Services to an Audit Client*

1. Do respondents support the proposals in Section 600? If not, why not?

In particular, do respondents agree with the proposal to extend the scope of the prohibition on recruiting services as described in paragraph 25(h) above to all audit client entities? If not, please explain why.

#### *Section 950, Provision of Non-Assurance Services to an Assurance Client*

2. Do respondents support the proposals in Section 950? If not, why not?

#### *Examples of Safeguards*

3. Do respondents have suggestions for other actions that might be safeguards in the NAS and other sections of the Code that would meet the revised description of a safeguard?

#### *Conforming Amendments Arising from the Safeguards Project*

4. Do respondents agree with proposed conforming amendments set out in:
- (a) Chapter 2 of this document.



- (b) The gray text in Chapters 2–5 of [Structure ED-2](#).
5. Respondents are asked for any comments on any other matters that are relevant to Phase 2 of the Safeguards project.

**Request for General Comments**

40. In addition to the request for specific comments above, the IESBA is also seeking comments on the matters set out below:
- (a) *Small and Medium Practices (SMPs) and PAIBs* – The IESBA invites comments regarding any aspect of the proposals from SMPs and PAIBs.
  - (b) *Regulators and Audit Oversight Bodies* – The IESBA invites comments on the proposals from an enforcement perspective from members of the regulatory and audit oversight communities.
  - (c) *Developing Nations* – Recognizing that many developing nations have adopted or are in the process of adopting the Code, the IESBA invites respondents from these nations to comment on the proposals, and in particular on any foreseeable difficulties in applying them in their environment.
  - (d) *Translations* – Recognizing that many respondents may intend to translate the final changes for adoption in their own environments, the IESBA welcomes comment on potential translation issues respondents may note in reviewing the proposals.

## EXPOSURE DRAFT: PROPOSED REVISIONS PERTAINING TO SAFEGUARDS IN THE CODE – PHASE 2

Safeguards Phase 2 proposals<sup>\*</sup> are set out in this document and the January 2017 Exposure Draft: [Improving the Structure of the Code of Ethics for Professional Accountants—Phase 2 with Proposed Conforming Amendments Arising from the Safeguards Project](#) (Structure ED-2) and include:

- Chapter 1 of this document – Revisions to the NAS sections of the extant Code: proposed Section 600, *Provision of Non-assurance Services to an Audit Client* and proposed Section 950, *Provision of Non-assurance Services to an Assurance Client* (see pages 18–41). These proposals are drafted using the new structure and drafting conventions established under the Structure project.
- Chapter 2 of this document – Proposed conforming amendments relating to the text of Phase 1 of the Structure project (see pages 42–55). The ED of Phase 1 of the Structure project had noted that certain paragraphs dealing with safeguards may be subject to revision as the Safeguards project continues. This material is not included in Structure ED-2.
- The gray text in Structure ED-2 – Proposed conforming amendments relating to the text of Phase 2 of the Structure project. The gray text material in Structure ED-2 is not repeated in Safeguards ED-2. Respondents are asked for any comments on all the proposed conforming amendments, including those presented in gray text in Structure ED-2.

### Chapter 1 – Proposed Revisions to Safeguards in the Non-Assurance Services Sections of the Code (Proposed Sections 600 and 950)

#### Part 4A – International Independence Standards for Audits and Reviews

...

#### Section 600

#### Provision of Non-assurance Services to an Audit 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.
- 600.2 Firms and network firms might provide a range of non-assurance services to their audit clients, consistent with their skills and expertise. Providing non-assurance services to audit clients might create threats to compliance with the fundamental principles and threats to independence.
- 600.3 Section 600 sets out requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence when providing non-

Commented [IESBA1]: New paragraph

Commented [IESBA2]: 290.154

Commented [IESBA3]: 290.155

<sup>\*</sup> Phase 2 of the Safeguards project include revisions to the following paragraphs in the extant Code:

- 290.100 to 290.101 of the extant Code, titled *Application of the Conceptual Framework Approach to Independence*.
- 290.154 to 290.214, *Provision of Non-Assurance Services to an Audit Client*.
- 291.138-291.148, *Provision of Non-Assurance Services to an Assurance Client*.
- Conforming amendments arising from the Safeguards project to other sections of the Code.

assurance services to audit clients. The subsections that follow set out specific requirements and application material relevant to providing certain non-assurance services to audit clients and indicate the types of threats that might be created as a result. In some cases, these subsections expressly prohibit a firm or network firm from providing certain services to an audit client because the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level.

## Requirements and Application Material

### General

**R600.4** Before a firm or a network firm accepts an engagement to provide a non-assurance service to an audit client, the firm shall determine whether providing such a service would create a threat to independence.

Commented [IESBA4]: 290.156

**600.4 A1** The requirements and application material in Section 600 assist firms in analyzing certain types of non-assurance services and the related threats that might be created when a firm or network firm provides non-assurance services to an audit client.

Commented [IESBA5]: 290.155

**600.4 A2** New business practices, the evolution of financial markets and changes in information technology, are amongst the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an audit client. As a result, this Code does not include an exhaustive listing of all non-assurance services that might be provided to an audit client.

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**600.4 A3** Factors that are relevant in evaluating the level of any threats created by providing a non-assurance service to an audit client include:

Commented [IESBA7]: New Paragraph

- The nature of the service, and the degree of reliance, if any, that will be placed on the outcome of that service as part of the audit.
- Whether the outcome of the service will affect matters reflected in the financial statements on which the firm will express an opinion, and, if 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 extent of the audit client's involvement in determining significant matters of judgment.
- The level of expertise of the client's employees with respect to the type of service provided.
- The nature and extent of the impact of the service, if any, on the systems that generate information that form a significant part of the client's:
  - Accounting records or financial statements on which the firm will express an opinion.
  - Internal controls over financial reporting.
- Whether the audit client is a public interest entity. For example, providing a non-assurance service to an audit client that is a public interest entity might be perceived to result in a higher level of a threat.

The subsections that follow include more specific factors that are relevant in evaluating the level of any threats created by providing certain non-assurance services.

**Materiality in Relation to an Audit Client’s Financial Statements**

600.5 A1 The subsections that follow refer to materiality in relation to an audit client’s financial statements. The concept of materiality is addressed in ISA 320, *Materiality in Planning and Performing an Audit*. The determination of materiality involves the exercise of professional judgment and is impacted by both quantitative and qualitative factors. It is also affected by perceptions of the financial information needs of users.

Commented [IESBA8]: New paragraph

**Multiple Non-assurance Services to an Audit Client**

600.6 A1 A firm or network firm might provide multiple non-assurance services to an audit client. When providing a non-assurance service to an audit client, applying the conceptual framework requires the firm to consider any combined effect of threats created by other non-assurance services provided to the audit client.

Commented [IESBA9]: New paragraph

**Avoiding Management Responsibilities**

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

Commented [IESBA10]: 290.161

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

Commented [IESBA11]: 290.161

600.7 A2 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.

Commented [IESBA12]: 290.159

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

Commented [IESBA13]: 290.160

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees’ work for the entity.
- Authorizing transactions
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility:
  - For the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework;
  - For designing, implementing, monitoring or maintaining internal control.

600.7 A4 Providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. (Ref: Para. R600.7 to 600.7 A3).

Commented [IESBA14]: 290.161

**R600.8** To avoid the risk of assuming management responsibility when providing non-assurance services to an audit client, the firm or a network firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

Commented [IESBA15]: 290.162

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

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

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

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

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

**Providing Non-Assurance Services to an Audit Client that Later Becomes a Public Interest Entity**

**R600.9** A non-assurance service provided by a firm or a network firm to an audit client does not compromise the firm's independence when the client becomes a public interest entity if:

Commented [IESBA16]: 290.158

(a) The previous non-assurance service complies with the requirements and application material of Section 600 that relate to audit clients that are not public interest entities;

(b) Services that are not permitted under Section 600 for audit clients that are public interest entities are ended before, or as soon as practicable after, the client becomes a public interest entity; and

(c) The firm applies the conceptual framework to identify, evaluate and address any threats that are created.

**Considerations for Certain Related Entities**

**R600.10** Section 600 prohibits assuming management responsibilities or providing certain non-assurance services to audit clients. As an exception to those requirements, a firm or network firm may assume management responsibilities or provide 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:

Commented [IESBA17]: 290.161, 290.157

(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 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;
  - (iii) The services do not create a self-review threat because the results of the services will not be subject to audit procedures; and
  - (iv) The firm applies the conceptual framework to eliminate any threats created or reduce them to an acceptable level.

## Subsection 601 – Accounting and Bookkeeping Services

### Introduction

601.1 Providing accounting and bookkeeping services to an audit client might create a self-review threat.

Commented [IESBA18]: 290.165

601.2 Subsection 601 sets out specific requirements and application material relevant to applying the conceptual framework when providing an audit client with accounting and bookkeeping services. There are some circumstances in which providing accounting and bookkeeping services to an audit client is expressly prohibited because the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level. The requirements and application material set out in Section 600 are relevant to this subsection.

Commented [IESBA19]: New paragraph

### Requirements and Application Material

#### General

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

Commented [IESBA20]: 290.165

- Preparing accounting records and financial statements.
- Bookkeeping and payroll services.

601.3 A2 Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework. These responsibilities include:

Commented [IESBA21]: 290.164

- 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, or determining the account classifications of transactions.

601.3 A3 The audit process necessitates dialogue between the firm and management of the audit client, which might involve:

Commented [IESBA22]: 290.166

- Applying accounting standards or policies and financial statement disclosure requirements.
- Assessing the appropriateness of financial and accounting control and the methods used in determining the stated amounts of assets and liabilities.
- Proposing adjusting journal entries.

These activities are considered to be a normal part of the audit process and do not usually create threats so long as the client is responsible for making decisions in the preparation of accounting records and financial statements.

601.3 A4 Similarly, the client might request technical assistance on matters such as resolving account reconciliation problems or analyzing and accumulating information for regulatory reporting. In addition, the client might request technical advice on accounting issues such as the conversion of existing financial statements from one financial reporting framework to another. Examples include:

Commented [IESBA23]: 290.167

- Complying with group accounting policies.
- Transitioning to a different financial reporting framework such as International Financial Reporting Standards.

Such services do not usually create threats provided the firm does not assume a management responsibility for the client.

601.4 A1 Accounting and bookkeeping services that are routine or mechanical in nature require little or no professional judgment by the professional accountant. Some examples of these services are:

Commented [IESBA24]: 290.168

- 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.

601.5 A1 Examples of actions that might be safeguards to address the self-review threats created when providing accounting and bookkeeping services to an audit client include:

Commented [IESBA25]: 290.168

- Using professionals who are not audit team members to perform the accounting and bookkeeping service.
- If such services are performed by an audit team member, using a partner or senior professionals who is not an audit team member, with appropriate expertise to review the work performed.

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

- R601.6** A firm or a network firm shall not provide to an audit client that is not a public interest entity, services related to accounting and bookkeeping services, on financial information which forms the basis of the financial statements on which the firm will express an opinion unless:
- (a) The services are of a routine or mechanical nature; and
  - (b) The firm addresses any threats created by providing such services.

Commented [IESBA26]: Derived from 290.169

**Audit Clients that Are Public Interest Entities**

- R601.7** A firm or a network firm shall not provide to an audit client that is a public interest entity accounting and bookkeeping services including preparing financial statements on which the firm will express an opinion, or financial information which forms the basis of the financial statements.
- R601.8** As an exception to paragraph R601.6, a firm may provide accounting and bookkeeping services of a routine or mechanical nature for divisions or related entities of an audit client that is a public interest entity if the personnel providing the services are not audit team members and:
- (a) The divisions or related entities for which the service is provided are collectively immaterial to the financial statements on which the firm will express an opinion; or
  - (b) The services relate to matters that are collectively immaterial to the financial statements of the division or related entity.

Commented [IESBA27]: 290.169

Commented [IESBA28]: 290.170

**Subsection 602 – Administrative Services**

**Introduction**

- 602.1 Providing administrative services to an audit client does not usually create a threat.
- 602.2 Subsection 602 sets out specific application material relevant to applying the conceptual framework when providing administrative services. The requirements and application material set out in Section 600 are relevant to this subsection.

Commented [IESBA29]: 290.163

Commented [IESBA30]: New paragraph

**Application Material**

- 602.3 A1 Administrative services involve assisting clients with their routine or mechanical tasks within the normal course of operations. Such services require little to no professional judgment and are clerical in nature.
- 602.3 A2 Examples of administrative services include:
- Word processing services.
  - Preparing administrative or statutory forms for client approval.
  - Submitting such forms as instructed by the client.
  - Monitoring statutory filing dates, and advising an audit client of those dates.

Commented [IESBA31]: 290.163

Commented [IESBA32]: 290.163

**Subsection 603 – Valuation Services**

**Introduction**

- 603.1 Providing valuation services to an audit client might create a self-review threat.

Commented [IESBA33]: 290.172



603.2 Subsection 603 sets out specific requirements and application material relevant to applying the conceptual framework when providing a valuation service to an audit client. In some circumstances, providing certain valuations services to an audit client is expressly prohibited because the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level. The requirements and application material set out in Section 600 are relevant to this subsection.

Commented [IESBA34]: New paragraph

## Requirements and Application Material

### General

603.3 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 a business as a whole.

Commented [IESBA35]: 290.171

603.3 A2 If a firm is requested to perform a valuation to assist an audit client with its tax reporting obligations or for tax planning purposes and the results of the valuation will not have a direct effect on the financial statements, the application material set out in paragraphs 604.12 A1–604.14 A1, relating to such services apply.

Commented [IESBA36]: 290.174

603.4 A1 Factors that are relevant in evaluating the level of any threat created by providing valuation services to an audit client include:

Commented [IESBA37]: 290.172

- The extent of the client's involvement in determining and approving the valuation methodology and other significant matters of judgment.
- The degree of subjectivity inherent in the item for valuations involving standard or established methodologies.
- Whether the valuation will have a material effect on the financial statements.
- The extent and clarity of the disclosures related to the valuation in the financial statements.
- The degree of dependence on future events of a nature that might create significant volatility inherent in the amounts involved.

603.4 A2 Examples of actions that might be safeguards to address the self-review threats created when providing valuation services to an audit client include:

Commented [IESBA38]: 290.172

- Using professionals who are not audit team members to perform the valuation services service.
- Having a professional who was not involved in providing the valuation service review the audit or valuation work performed.

### Audit Clients That Are Not Public Interest Entities

R603.5 A firm or a network firm shall not provide a valuation service to an audit client that is not a public interest entity if:

Commented [IESBA39]: 290.175

- (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.

603.5 A1 Certain valuations do not involve a significant degree of subjectivity. This is likely to be the case when the underlying assumptions are either established by law or regulation, or are widely accepted and when the techniques and methodologies to be used are based on generally accepted

Commented [IESBA40]: 290.173

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.

#### Audit Clients That Are Public Interest Entities

**R603.6** A firm or a network firm shall not provide valuation services to an audit client that is a public interest entity if the valuation services would have a material effect, separately or in the aggregate, on the financial statements on which the firm will express an opinion.

Commented [IESBA41]: 290.176

### Subsection 604 – Taxation Services

#### Introduction

604.1 Providing taxation services to an audit client might create a self-review or advocacy threat.

Commented [IESBA42]: 290.178

604.2 Subsection 604 sets out specific requirements and application material relevant to applying the conceptual framework when providing a taxation service to an audit client. In some circumstances, providing certain taxation services to an audit client is expressly prohibited because the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level. The requirements and application material set out in Section 600 are relevant to this subsection.

Commented [IESBA43]: New paragraph

#### Requirements and Application Material

604.3 A1 Taxation services comprise a broad range of services, including:

Commented [IESBA44]: 290.177

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

While this subsection deals with different types of taxation services described above separately under separate headings, in practice, the activities involved in providing taxation services are often interrelated.

604.4 A2 Factors that are relevant in evaluating the level of any threat created by providing taxation services to audit clients include:

Commented [IESBA45]: 290.178

- The particular characteristics of the engagement.
- The level of tax expertise of the client's employees.
- The system by which the tax authorities assess and administer the tax in question and the role of the firm in that process.
- The complexity of the relevant tax regime and the degree of judgment necessary in applying it.

#### Tax Return Preparation

604.5 A1 Providing tax return preparation services does not usually create a threat.

Commented [IESBA46]: 290.179

604.5 A2 Tax return preparation services involve:

Commented [IESBA47]: 290.179

- Assisting clients with their tax reporting obligations by drafting and compiling information, including the amount of tax due (usually on standardized forms) required to be submitted to

the applicable tax authorities.

- Advising on the tax return treatment of past transactions and responding on behalf of the audit client to the tax authorities' requests for additional information and analysis (for example, including providing explanations of and technical support for the approach being taken).

604.5 A3 Tax return preparation services are usually based on historical information and principally involve analysis and presentation of such historical information under existing tax law, including precedents and established practice. Further, the tax returns are subject to whatever review or approval process the tax authority considers appropriate.

Commented [IESBA48]: 290.179

### Tax Calculations for the Purpose of Preparing Accounting Entries

#### General

604.6 A1 Preparing calculations of current and deferred tax liabilities (or assets) for an audit client for the purpose of preparing accounting entries that will be subsequently audited by the firm creates a self-review threat.

Commented [IESBA49]: 290.180

#### Audit Clients That Are Not Public Interest Entities

604.7 A1 In addition to paragraph 604.4 A2, factors that are relevant in evaluating the level of any threat created by preparing tax calculations for the purpose of preparing accounting entries for an audit client include:

Commented [IESBA50]: 290.180

- The complexity of the relevant tax law and regulation and the degree of judgment necessary in applying them.
- The materiality of the amounts to the financial statements.

604.7 A2 Examples of actions that might be safeguards to address self-review threats created when providing tax calculations for the purpose of preparing accounting entries for an audit client that is not a public interest entity include:

Commented [IESBA51]: 290.180

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

#### Audit Clients That Are Public Interest Entities

R604.8 A firm or a network firm shall not prepare tax calculations of current and deferred tax liabilities (or assets) for an audit client that is a public interest entity for the purpose of preparing accounting entries that are material to the financial statements on which the firm will express an opinion.

Commented [IESBA52]: 290.181

### Tax Planning and Other Tax Advisory Services

#### General

604.9 A1 Providing tax planning and other tax advisory services might create a self-review or advocacy threat.

Commented [IESBA53]: 290.183

604.9 A2 Tax planning or other tax advisory services comprise a broad range of services, such as advising the client how to structure its affairs in a tax efficient manner or advising on the application of a new tax law or regulation.

Commented [IESBA54]: 290.182

604.10 A1 In addition to paragraph 604.4 A2, factors that are relevant in evaluating the level of any threat created by providing tax advice to audit clients include:

Commented [IESBA55]: 290.183

- The degree of subjectivity involved in determining the appropriate treatment for the tax advice in the financial statements.
- Whether the tax treatment is supported by a private ruling or has otherwise been cleared by the tax authority before the preparation of the financial statements.

For example, whether the advice provided as a result of the tax planning and other tax advisory services is:

- (a) Clearly supported by tax authority or other precedent;
- (b) Established practice; or
- (c) Has a basis in tax law that is likely to prevail.
- The extent to which the outcome of the tax advice will have a material effect on the financial statements.
- Whether the effectiveness of the tax advice depends on the accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the accounting treatment or presentation under the relevant financial reporting framework.

604.10 A2 Examples of actions that might be safeguards to address self-review threats created when providing tax planning and other tax advisory services include:

Commented [IESBA56]: 290.184

- Using tax professionals who are not audit team members to perform the tax service.
- Having a professional, who was not involved in providing the tax service review the financial statement treatment.
- Obtaining pre-clearance from the tax authorities.

**R604.11** A firm or a network firm shall not provide taxation advisory services to an audit client when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

Commented [IESBA57]: 290.185

- (a) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) The outcome or consequences of the tax advice will have a material effect on the financial statements on which the firm will express an opinion.

#### Taxation Services Involving Valuations

604.12 A1 Providing tax valuation services to an audit client might create a self-review threat.

Commented [IESBA58]: New paragraph

604.12 A2 A firm or a network firm might perform a valuation for tax purposes only where the result of the valuation will not have a direct effect on the financial statements (that is, the financial statements are only affected through accounting entries related to tax). This would not usually create threats if the effect on the financial statements is immaterial or the valuation is subject to external review by a tax authority or similar regulatory authority.

Commented [IESBA59]: 290.186

604.12 A3 If the valuation that is performed for tax purposes is not subject to such an external review and the effect is material to the financial statements, in addition to paragraph 604.4 A2, the following factors are relevant to evaluating the level of any threat created by providing those services to an audit client:

Commented [IESBA60]: 290.186

- 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.

604.13 A1 Examples of actions that might be safeguards to address self-review or advocacy threats when providing taxation services involving valuations include:

Commented [IESBA61]: 290.186

- Using tax professionals who are not audit team members to perform the service.
- Having a professional review the audit work or the result of the tax service.
- Obtaining pre-clearance from the tax authorities.

604.14 A1 A firm or network firm might also perform a tax valuation to assist an audit client with its tax reporting obligations or for tax planning purposes where the result of the valuation will have a direct effect on the financial statements. In such situations, the requirements and application material set out in Subsection 603 relating to valuation services apply.

Commented [IESBA62]: 290.186

**Assistance in the Resolution of Tax Disputes**

604.15 A1 Providing assistance in the resolution of tax disputes to an audit client might create an advocacy or self-review threat.

Commented [IESBA63]: 290.187

604.15 A2 A tax dispute might reach a point when the tax authorities have notified an audit client that arguments on a particular issue have been rejected and either the tax authority or the client refers the matter for determination in a formal proceeding, for example before a tribunal or court.

Commented [IESBA64]: 290.187

**R604.16** A firm or a network firm shall not provide taxation services that involve assisting in the resolution of tax disputes to an audit client if:

Commented [IESBA65]: 290.188

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

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

Commented [IESBA66]: 290.188

604.16 A2 Paragraph R604.16 does not preclude a firm from having a continuing advisory role in relation to the matter that is being heard before a public tribunal or court, for example:

Commented [IESBA67]: 290.189

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

604.16 A3 In addition to paragraph 604.4 A2, factors that are relevant in evaluating the level of any threat created by assisting in the resolution of tax disputes to an audit client include:

Commented [IESBA68]: 290.187

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

604.16 A4 Examples of actions that might be safeguards to address self-review or advocacy threats created by having a role in the resolution of tax disputes include:

Commented [IESBA69]: 290.187

- Using professionals who are not audit team members to perform the tax service.
- Having a professional, who was not involved in providing the tax service review the financial statement treatment.

## Subsection 605 – Internal Audit Services

### Introduction

605.1 The provision of internal audit services to an audit client might create a self-review threat.

Commented [IESBA70]: 290.191

605.2 Subsection 605 sets out specific requirements and application material relevant to applying the conceptual framework when providing an internal audit service to an audit client. In some circumstances, providing certain internal audit services is expressly prohibited because the threats created cannot be eliminated or there can be no safeguards to reduce them to an acceptable level. The requirements and application material set out in Section 600 are relevant to this subsection.

Commented [IESBA71]: New paragraph

## Requirements and Application Material

### General

605.3 A1 Internal audit services involve assisting the audit client in the performance of its internal audit activities. Internal audit activities might include:

Commented [IESBA72]: 290.190

- 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:

- o Laws, regulations and other external requirements.
- o Management policies, directives and other internal requirements.

605.3 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 management and those charged with governance.

Commented [IESBA73]: 290.190

R605.4 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility when providing an internal audit service to an audit client. When providing an internal audit service to an audit client, the firm shall be satisfied that:

Commented [IESBA74]: 290.193

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

605.4 A1 Performing a significant part of the client's internal audit activities increases the possibility that firm personnel providing internal audit services will assume a management responsibility. If the firm's personnel assume a management responsibility when providing internal audit services to an audit client, the threat created cannot be eliminated or reduced to an acceptable level by applying a safeguard.

Commented [IESBA75]: 290.191

605.4 A2 Examples of internal audit services that involve assuming management responsibilities include:

Commented [IESBA76]: 290.192

- 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:
  - o Is responsible for determining the scope of the internal audit work; and

- Might have responsibility for one or more of the matters noted above.

605.5 A1 Factors that are relevant in evaluating the level of any threat created by providing internal audit services to an audit client include:

Commented [IESBA77]: 290.194

- The materiality of the related financial statement amounts.
- The risk of misstatement of the assertions related to those financial statement amounts.
- The degree of reliance that the audit team will place on the work of the internal audit service, including in the course of an external audit.

605.5 A2 An example of an action that might be a safeguard to address self-review threats created by providing internal audit services is using professionals who are not audit team members to perform the internal audit service.

Commented [IESBA78]: 290.194

605.6 A1 When a firm uses the work of an internal audit function in an audit engagement, International Standards on Auditing require the performance of procedures to evaluate the adequacy of that work. When a firm accepts an engagement to provide internal audit services to an audit client, the results of those services might be used in conducting the external audit. This creates a self-review threat because it is possible that the audit team will use the results of the internal audit service for purposes of the audit engagement without:

Commented [IESBA79]: 290.194

- (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.

#### Audit Clients that Are Public Interest Entities

R605.7 A firm or a network firm shall not provide internal audit services to an audit client that is a public interest entity, if the services relate to:

Commented [IESBA80]: 290.195

- (a) A significant part of the internal controls over financial reporting;
- (b) Financial accounting systems that generate information that is, separately or in the aggregate, material to the client's accounting records or financial statements on which the firm will express an opinion; or
- (c) Amounts or disclosures that are, separately or in the aggregate, material to the financial statements on which the firm will express an opinion.

### Subsection 606 – Information Technology Systems Services

#### Introduction

606.1 Providing information technology (IT) systems services to an audit client might create a self-review threat.

Commented [IESBA81]: 290.196

606.2 Subsection 606 sets out specific requirements and application material relevant to applying the conceptual framework when providing an IT service to an audit client. In some circumstances, providing certain IT services is expressly prohibited because the threats created cannot be eliminated or there can be no safeguards reduce them to an acceptable level. The requirements and application material set out in Section 600 are relevant to this subsection.

Commented [IESBA82]: New paragraph



## Requirements and Application Material

### General

606.3 A1 Services related to information technology systems include the design or implementation of hardware or software systems. The IT systems might:

Commented [IESBA83]: 290.196

- (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 client's accounting records or the internal control over financial reporting or financial statements.

606.3 A2 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility when providing an IT service to an audit client. Providing the following IT services to an audit client does not usually create a threat as long as personnel of the firm or network firm do not assume a management responsibility:

Commented [IESBA84]: 290.197

- (a) Designing or implementing IT systems that are unrelated to internal control over financial reporting;
- (b) Designing or implementing IT systems that do not generate information forming a significant part of the accounting records or financial statements;
- (c) Implementing "off-the-shelf" accounting or financial information reporting software that was not developed by the firm, if the customization required to meet the client's needs is not significant; and
- (d) Evaluating and making recommendations with respect to a system designed, implemented or operated by another service provider or the client.

606.4 A1 Factors that are relevant in evaluating the level of any threat created by providing IT systems services to an audit client include:

Commented [IESBA85]: New paragraph

- The nature of the services.
- The nature of IT systems.
- The degree of reliance that will be placed on the particular IT systems as part of the audit.

606.4 A2 An example of an action that might be a safeguard to address self-review threats created when providing IT systems services to an audit client is using personnel who are not audit team members.

Commented [IESBA86]: 290.200

### Audit Clients That Are Not Public Interest Entities

R606.5 A firm or a network firm shall not provide an IT systems service to an audit client that is not a public interest entity if the service involves the design or implementation of IT systems that:

Commented [IESBA87]: 290.198, 290.199

- (a) Form a significant part of the internal control over financial reporting; or
- (b) Generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion,

unless appropriate policies and procedures are put in place ensuring that:

- (i) The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (ii) The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- (iii) The client makes all management decisions with respect to the design and implementation process;
- (iv) The client evaluates the adequacy and results of the design and implementation of the system; and
- (v) The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

#### Audit Clients that Are Public Interest Entities

**R606.6** A firm or a network firm shall not provide IT systems services to an audit client that is a public interest entity if the services involve designing or implementing IT systems that:

Commented [IESBA88]: 290.201

- (a) Form a significant part of the internal control over financial reporting; or
- (b) Generate information that is significant to the client's accounting records or financial statements on which the firm will express an opinion.

#### Subsection 607 – Litigation Support Services

##### Introduction

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

Commented [IESBA89]: 290.202

607.2 Subsection 607 sets out specific application material relevant to applying the conceptual framework when providing a litigation support service to an audit client. The application material set out in Section 600 is relevant to this subsection.

Commented [IESBA90]: New paragraph

##### Application Material

607.3 A1 Litigation support services might include activities such as:

Commented [IESBA91]: 290.202

- 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.

607.4 A1 Factors that are relevant in evaluating the level of any threat created by providing litigation support services to an audit client include:

Commented [IESBA92]: New paragraph

- The legal and regulatory environment in which the service is provided, for example, whether an expert witness is chosen and appointed by a court.
- The nature and characteristics of the service.
- The extent to which the outcome of the litigation support service will have a material effect on the financial statements on which the firm will express an opinion.

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

Commented [IESBA93]: 290.203

## Subsection 608 – Legal Services

### Introduction

608.1 Providing legal services to an audit client might create a self-review or advocacy threat.

Commented [IESBA94]: 290.204

608.2 Subsection 608 sets out specific requirements and application material relevant to applying the conceptual framework when providing a legal service to an audit client. In some circumstances, providing certain legal services is expressly prohibited because the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level. The requirements and application material set out in Section 600 are relevant to this subsection.

Commented [IESBA95]: New paragraph

### Requirements and Application Material

#### General

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

Commented [IESBA96]: 290.204

- (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.

#### Legal Advisory Services

608.4 A1 Legal advisory services that support an audit client might create self-review threats.

Commented [IESBA97]: 290.204

608.4 A2 Depending on the jurisdiction, legal advisory services might include a wide and diversified range of areas including both corporate and commercial services to clients, such as:

Commented [IESBA98]: 290.204

- Contract support.
- Supporting an audit client in executing a transaction.
- Mergers and acquisitions.
- Support and assistance to clients' internal legal departments.
- Legal due diligence and restructuring.

608.5 A1 Factors that are relevant in evaluating the level of any threats created by providing legal advisory services to an audit client include:

Commented [IESBA99]: 290.205

- The nature of the service.
- Whether the service is provided by an audit team member.
- The materiality of any matter in relation to the client's financial statements.

608.5 A2 Examples of actions that might be safeguards to address self-review and advocacy threats created when providing legal advisory services include:

Commented [IESBA100]: 290.205

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

- Having a professional who was not involved in providing the legal advisory services review any accounting treatment and any financial statement treatment.

*Acting as General Counsel*

**R608.6** A partner or employee of the firm or the network firm shall not accept an appointment as General Counsel for legal affairs of an audit client.

Commented [IESBA101]: 290.208

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

Commented [IESBA102]: 290.208

*Legal Services Involving Acting in an Advocacy Role*

608.7 A1 Acting in an advocacy role for an audit client in resolving a dispute or litigation might create advocacy and self-review threats.

Commented [IESBA103]: 290.206

**R608.8** A firm or a network firm shall not act in an advocacy role for an audit client in resolving a dispute or litigation when the amounts involved are material to the financial statements on which the firm will express an opinion.

Commented [IESBA104]: 290.206

608.9 A1 Examples of actions that might be safeguards to address self-review and advocacy threats created when acting in an advocacy role for an audit client when the amounts involved are not material to the financial statements on which the firm will express an opinion include:

Commented [IESBA105]: 290.207

- Using professionals who are not audit team members to perform the service.
- Having a professional who was not involved in providing the legal services review any accounting treatment and any financial statement treatment.

**Subsection 609 – Recruiting Services**

**Introduction**

609.1 Providing recruiting services to an audit client might create a self-interest, familiarity or intimidation threat.

Commented [IESBA106]: 290.209

609.2 Subsection 609 sets out specific requirements and application material relevant to applying the conceptual framework when providing recruiting services to an audit client. In some circumstances, providing recruiting services to an audit client is expressly prohibited because the threat cannot be eliminated or there can be no safeguards to reduce them to an acceptable level. The requirements and application material set out in Section 600 are relevant to this subsection.

Commented [IESBA107]: New paragraph

**Requirements and Application Material**

**General**

609.3 A1 Providing the following services does not usually create threats:

Commented [IESBA108]: 290.209

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

609.4 A1 Factors that are relevant in evaluating the level of any threat created by providing recruiting services to an audit client include:

Commented [IESBA109]: 290.209

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

609.4 A2 An example of an action that might be a safeguard to address self-interest, familiarity or intimidation threats created by providing recruiting services include is using professionals who are not audit team members to perform the service

Commented [IESBA110]: New paragraph

R609.5 Paragraph R600.7 precludes a firm or a network firm from assuming a management responsibility. 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, and the hiring decision shall be made by the client.

Commented [IESBA111]: 290.209

R609.6 A firm or a network firm shall not provide a recruiting service to an audit client with respect to a director or officer of the entity or senior management in a position to exert significant influence over the preparation of the client's accounting records or the financial statements on which the firm will express an opinion if the service involves:

Commented [IESBA112]: 290.210

- (a) Searching for or seeking out candidates for such positions; and
- (b) Undertaking reference checks of prospective candidates for such positions.

## Subsection 610 – Corporate Finance Services

### Introduction

610.1 Providing corporate finance services to an audit client might create an advocacy or self-review threat.

Commented [IESBA113]: 290.211

610.2 Subsection 610 sets out specific requirements and application material relevant to applying the conceptual framework when providing a corporate finance services to an audit client. In some circumstances, providing corporate finance services to an audit client is expressly prohibited because the threats cannot be eliminated or there can be no safeguards to reduce them to an acceptable level. The requirements and application material set out in Section 600 are relevant to this subsection.

Commented [IESBA114]: New paragraph

### Requirements and Application Material

#### General

610.3 A1 Examples of corporate finance services that might create a threat include:

Commented [IESBA115]: 290.211

- Assisting an audit client in developing corporate strategies.
- Identifying possible targets for the audit client to acquire.
- Advising on disposal transactions.
- Assisting in finance raising transactions.
- Providing structuring advice.
- Providing advice on the structuring of a corporate finance transaction or on financing arrangements that will directly affect amounts that will be reported in the financial statements on which the firm will express an opinion.

610.4 A1 Factors that are relevant in evaluating the level of any threat created by providing corporate finance services to an audit client include:

Commented [IESBA116]: 290.212

- 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 amounts are material to the financial statements.
- Whether the effectiveness of the corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and there is doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework.

610.4 A2 Examples of actions that might be safeguards to address advocacy or self-review threats created by providing a corporate finance service to an audit client include:

Commented [IESBA117]: 290.212

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

R610.5 A firm or a network firm shall not provide corporate finance services to an audit client that involve promoting, dealing in, or underwriting the audit client's shares.

Commented [IESBA118]: 290.214

R610.6 A firm or a network firm shall not provide corporate finance advice to an audit client where the effectiveness of corporate finance advice depends on a particular accounting treatment or presentation in the financial statements and:

Commented [IESBA119]: 290.213

- (a) The audit team has reasonable doubt as to the appropriateness of the related accounting treatment or presentation under the relevant financial reporting framework; and
- (b) The outcome or consequences of the corporate finance advice will have a material effect on the financial statements on which the firm will express an opinion.

## Part 4B – International Independence Standards for Other Assurance Engagements

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### Section 950

#### Provision of Non-assurance Services to an Assurance Client

##### 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 non-assurance services to assurance clients might create threats to compliance with the fundamental principles and threats to independence.
- 950.3 Section 950 sets out specific requirements and application material relevant to applying the conceptual framework when providing non-assurance services to assurance clients.

**Commented [IESBA120]:** New paragraph

**Commented [IESBA121]:** Derived from 291.138 and aligned to proposed 600.1.

**Commented [IESBA122]:** New paragraph, aligns to proposed 600.3

##### Requirements and Application Material

###### General

- R950.4 Before a firm accepts an engagement to provide a non-assurance service to an assurance client, the firm shall determine whether providing such a service would create a threat to independence.
- 950.4 A1 The requirements and application material in Section 950 assist firms in analyzing certain types of non-assurance services and the related threats that might be created when a firm accepts or provides non-assurance services to an assurance client.
- 950.4 A2 New business practices, the evolution of financial markets and changes in information technology are amongst the developments that make it impossible to draw up an all-inclusive list of non-assurance services that might be provided to an assurance client. As a result, the Code does not include an exhaustive listing of all non-assurance services that might be provided to an assurance client.
- 950.4 A3 Factors that are relevant in evaluating the level of any threats created by providing a non-assurance service to an assurance client include:
- The nature of the service, and the degree of reliance, if any, that will be placed on the outcome of that service as part of the assurance engagement.
  - Whether the outcome of the service will affect matters reflected in the subject matter or subject matter information of the assurance engagement, and, if so:
    - The extent to which the outcome of the service will have a material or significant effect on the subject matter of the assurance engagement.
    - The extent of the assurance client's involvement in determining and accepting its responsibilities for those matters where they involve significant professional judgment.
    - The extent of the assurance client's involvement in determining significant matters of judgment.
  - The level of expertise of the client's employees with respect to the type of service provided.

**Commented [IESBA123]:** 291.140, aligns to proposed R600.4

**Commented [IESBA124]:** New paragraph, aligns to proposed 600.4 A1

**Commented [IESBA125]:** New paragraph, aligns to proposed 600.4 A2

**Commented [IESBA126]:** New paragraph, aligns to proposed 600.4 A4

**Materiality In Relation to an Assurance Client's Information**

950.4 A4 Materiality in relation to an assurance client's information is addressed in *International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information*. The determination of materiality involves the exercise of professional 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.

**Commented [IESBA127]:** New paragraph, aligns to proposed 605.A1

**Avoiding Management Responsibilities**

**R950.5** A firm shall not assume a management responsibility as part of an assurance service. If the firm assumes a management responsibility as part of any other services provided to the assurance client, the firm shall establish appropriate policies and procedures to ensure that the responsibility is not related to the subject matter or subject matter information of the assurance engagement provided by the firm.

**Commented [IESBA128]:** 291.143

950.5 A1 Assuming a management responsibility as part of an assurance service creates self-review, self-interest and familiarity threats.

**Commented [IESBA129]:** New paragraph

950.5 A2 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.

**Commented [IESBA130]:** 291.141

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

**Commented [IESBA131]:** 291.142

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees' work for the entity.
- Authorizing transactions
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for designing, implementing, monitoring and maintaining internal control.

950.5 A4 Providing advice and recommendations to assist the management of an assurance client in discharging its responsibilities is not assuming a management responsibility (Ref: Paras. R950.4 to 950.4 A3).

**Commented [IESBA132]:** New paragraph, aligns to proposed 600.5 A1

**R950.6** When providing services that are related to the subject matter or subject matter information of an assurance engagement, the firm shall be satisfied that client management makes all related judgments and decisions. This includes ensuring that the client's management:

**Commented [IESBA133]:** 291.144

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



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

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

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

#### Multiple Non-assurance Services to an Assurance Client

950.7 A1 A firm might provide multiple non-assurance services to an assurance client. When providing a non-assurance service to an assurance client, applying the conceptual framework requires the firm to consider any combined effect of threats created by other non-assurance services provided to the assurance client.

**Commented [IESBA134]:** New paragraph, aligns to proposed 600.6 A1

#### Other Considerations Related to Providing Specific Non-Assurance Services

950.8 A1 A self-review threat might be created if the firm is involved in the preparation of subject matter information which is subsequently the subject matter information of an assurance engagement.

**Commented [IESBA135]:** 291.146, 291.147

950.8 A2 Examples of non-assurance services that might create self-review threats include:

- (a) Providing services related to the subject matter information of an assurance engagement.
- (b) Preparing subject matter information which is subsequently the subject matter information of an assurance engagement, such as, if the firm developed and prepared prospective information and subsequently provided assurance on this information.
- (c) Performing a valuation that forms part of the subject matter information of an assurance engagement.

**Commented [IESBA136]:** 291.146, 291.147

## Chapter 2 – Conforming Amendments Arising from the Safeguards Project Not Included in Structure ED-2

Conforming amendments to the material in Structure Phase 1 as a result of the Safeguards project (i.e., the text that was shaded in gray and italicized in Structure ED-1) are shown below with mark-ups to Structure ED-1. For reference, the [agree-in-principle text](#), and a [mark-up](#) showing the revisions made to Structure ED-1 is available at: [www.ethicsboard.org/restructured-code](http://www.ethicsboard.org/restructured-code).

### PART 1 – COMPLYING WITH THE CODE, FUNDAMENTAL PRINCIPLES AND CONCEPTUAL FRAMEWORK

#### Section 100

#### The Fundamental Principles

#### Subsection 112 – Objectivity

1. Paragraph 112.2 A1 of Structure ED-1 is deleted.

### PART 3 – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

#### Section 310

#### Conflicts of Interest

#### Requirements and Application Material

*Applying the Conceptual Framework to Threats Created by Conflicts of Interest*

2. Paragraph 310.10 A1 is deleted and paragraphs 310.10 A2 and 310.10 A3 of Structure ED-1 are revised as follows:

310.10 A1 ~~In applying the conceptual framework when evaluating a threat created by a conflict of interest, factors to consider include the significance of:~~

- (a) ~~The interests or relationships; and~~
- (b) ~~The threats created by performing the professional services.~~

310.840 A12 ~~In general, the more direct the connection between the professional service and the matter on which the parties' interests conflict, the more likely that significant the level of the threat is not at an acceptable level to objectivity and compliance with the other fundamental principles will be.~~

310.840 A32 ~~Examples of safeguards Factors that are relevant in evaluating the level of any threats created by conflicts of interest include:~~

- ~~Implementing measures that to prevent unauthorized disclosure of confidential information, when performing professional services related to a particular matter for two or more clients whose interests with respect to that matter are in conflict. This could include:~~
- ~~Using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.~~
- ~~Creating The existence of separate practice areas for specialty functions within the~~

Commented [IESBA137]: 220.3, 220.9

Commented [IESBA138]: 220.3, 220.9

Commented [IESBA139]: 220.10

firm, which might act as a barrier to the passing of confidential client information between practice areas.

- ~~Establishing p~~Policies and procedures to limit access to client files.
- ~~Using e~~Confidentiality agreements signed by personnel and partners of the firm.
- Separating confidential information physically and electronically.
- ~~Reviewing regularly the application of safeguards by a senior individual not involved with the client engagement or engagements.~~

310.8A34 Examples of actions that might be safeguards to address threats created by conflicts of interest include:

- ~~Having~~Using separate engagement teams who are provided with clear policies and procedures on maintaining confidentiality.
- Having a professional accountant who is not involved in providing the service or otherwise affected by the conflict, review the work performed to assess whether the key judgments and conclusions are appropriate.
- ~~Consulting third parties, such as a professional body, legal counsel or another professional accountant.~~

Commented [IESBA140]: 220.10

## Section 320

### Professional Appointments

#### Requirements and Application Material

3. Paragraph 320.3 A2 of Structure ED-1 is revised as follows:

320.4 ~~3-A2~~ Factors that are relevant in evaluating the level of any threat created by accepting a new client ~~Examples of safeguards include:~~

- ~~Obtaining k~~nowledge and understanding of the client, its owners, managements and those charged with governance and business activities.
- ~~Obtaining t~~The client's commitment to address the questionable issues, for example, through improving corporate governance practices or internal controls.

Commented [IESBA141]: 210.2 NOCLAR

4. Paragraph 320.3 A5 of Structure ED-1 is revised as follows:

320.5 ~~3 A25~~ Factors that are relevant in evaluating the level of any threat created by accepting a new engagement ~~Examples of safeguards include:~~

- ~~Acquiring a~~An appropriate understanding of:
  - The nature of the client's business.
  - The complexity of its operations.
  - The requirements of the engagement.
  - The purpose, nature and scope of the work to be performed.
- ~~Acquiring k~~nowledge of relevant industries or subject matters.

Commented [IESBA142]: 210.7 extant, 210.6 NOCLAR

- ~~Possessing or obtaining e~~Experience with relevant regulatory or reporting requirements.
- ~~Complying with~~ The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.

320.5 A3 Examples of actions that might be safeguards to address threats created by accepting a new engagement include:

- Assigning sufficient engagement personnel with the necessary competencies.
- Agreeing on a realistic time frame for the performance of the engagement.
- ~~Complying with quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.~~
- Using experts where necessary.

Commented [IESBA143]: 210.7 extant, NOCLAR

5. Paragraph 320.4 A3 of Structure ED-1 is revised as follows:

320.64 A3 A factor that is relevant in evaluating the level of any threats created by changes in appointments is whether tenders state that, before accepting the engagement, contact with the existing or predecessor accountant will be requested. This contact gives the proposed accountant the opportunity to inquire whether there are any reasons why the engagement should not be accepted.

Commented [IESBA144]: 210.11 extant, NOCLAR

320.6 A4 Examples of actions that might be safeguards to address threats created by changes in professional appointments include:

- ~~Stating in tenders that, before accepting the engagement, contact with the existing accountant will be requested. This contact gives the proposed professional accountant the opportunity to inquire whether there are any reasons why the appointment should not be accepted.~~
- Asking the existing or predecessor accountant to provide any known information thatwhich, in the existing or predecessor accountant's opinion, the proposed professional-accountant needs to be aware of before deciding whether to accept the engagement. For example, the apparent reasons for the change in appointment might not fully reflect the facts and might indicate disagreements with the existing or predecessor accountant that might influence the decision to accept the appointment.
- Obtaining information from other sources such as through inquiries of third parties or background investigations ofregarding senior management or those charged with governance of the client.

Commented [IESBA145]: 210.11 extant, NOCLAR

Commented [IESBA146]: 210.11 extant, NOCLAR

## Section 321

### Second Opinions

#### Requirements and Application Material

6. Paragraphs 321.A5 and 321.5 A3 of Structure ED-1 are revised as follows:

321.5 A1 Factors that are relevant in evaluating the level of any threat created by providing a second opinion to an entity that are not an existing client is depends on the circumstances of the request and all the other available facts and assumptions relevant to the expression of a professional judgment.

Commented [IESBA147]: 230.1

321.5 A2 Examples of actions that might be safeguards to address the threats created by providing a second opinion include:

Commented [IESBA148]: 230.2

- With the Seeking client's permission, obtaining information from to contact the existing or predecessor accountant.
- Describing the limitations surrounding any opinion in communications with the client.
- Providing the existing or predecessor accountant with a copy of the opinion.

## Section 330

### Fees and Other Types of Remuneration

#### Application Material

7. Paragraph 330.3 A3 of Structure ED-1 is revised as follows:

330.4 A3 Examples of safeguards Factors that are relevant in evaluating the level of any threats created by the level of fees quoted include:

Commented [IESBA149]: 240.2

- Whether Making the client is aware of the terms of the engagement and, in particular, the basis on which fees are charged and which professional services the quoted fee covers.
- Whether the level of the fee is set by an independent third party such as a regulator or a tax authority.

330.4 A4 Examples of actions that might be safeguards to address threats set out in paragraph 330.4 A2 include:

Commented [IESBA150]: 240.2

- Adjusting the level of fees or the scope of the engagement.
- Assigning a professional with appropriate time and qualified personnel expertise to review the work task performed.

8. The last sentence in paragraph 330.3 A4 and paragraph 330.3 A5 of Structure ED-1 are revised as follows:

....~~The existence and significance~~

330.5 A2 Factors that are relevant in evaluating the level of such threats created by contingent fees will depend on factors including:

Commented [IESBA151]: 240.3

- The nature of the engagement.
- The range of possible fee amounts.

- The basis for determining the fee.

330.3 A5 Examples of safeguards include:

- An advance written agreement with the client on the basis of remuneration.
- Disclosure to intended users of the work performed by the professional accountant and the basis of remuneration.
- Quality control policies and procedures.
- Whether an independent third party is to review the outcome or result of the transaction.
- Whether the level of the fee is set by an independent third party such as a regulator or a tax authority.

Commented [IESBA152]: 240.4

Commented [IESBA153]: 240.3

300.5 ~~3A53~~ An example of an action that might be a safeguard to address threats created by contingent fees is having a Rreview by an independent third party of the work performed by the professional accountant.

Commented [IESBA154]: 240.4

9. Paragraphs 330.3 A8 and 330.3 A9 of Structure ED-1 are revised as follows:

330.7 ~~3A18~~ A self-interest threat to objectivity and professional competence and due care is also created if a professional accountant pays a referral fee to obtain a client. For example, such a referral fee includes a fee that is paid when the client continues as a client of another accountant but requires specialist services not offered by the existing accountant. A factor that is relevant in evaluating the level of threats set out in paragraph 330.6 A1. Examples of safeguards include:

is whether the professional accountant has disclosed to the client:  
Disclosing to the client any arrangements to pay a referral fee paid to, or received from, another accountant, for the work referred.

Disclosing to the client any arrangements to receive a referral fee for referring the client to another accountant.

Commented [IESBA155]: 240.6, 240.7

330.8 A1 An example of an action that might be a safeguard to address threats created by the receipt of a commission is to oObtaining advance agreement from the client for commission arrangements in connection with the sale by another third party of goods or services to the client.

Commented [IESBA156]: 240.5

## Section 340

### Gifts and Hospitality

#### Application Material

10. Paragraph 340.3 A1 of Structure ED-1 is revised as follows:

340.4 A2 ~~340.3 A1~~ The existence and significance of a threat. The level of any threat created by an offer of a gift or hospitality from a client will depend on the nature, value and intent of the offer, .In some circumstances, a and whether, taking into account the reasonable and informed third party test: would consider some

Commented [IESBA157]: 260.2

- The offer of gifts or hospitality would be considered to be trivial and inconsequential; or. In such circumstances, the professional accountant may conclude that

- ~~The offer of gifts or hospitality is made in the normal course of business without intent to influence decision making or to obtain information, and conclude that any threat to compliance with the fundamental principles is at an acceptable level.~~

## INTERNATIONAL INDEPENDENCE STANDARDS (PARTS 4A and 4B)

### PART 4A – INDEPENDENCE FOR AUDITS AND REVIEWS

#### Section 400

#### Applying the Conceptual Framework to Independence for Audits and Reviews Requirements and Application Material

##### General

11. Paragraphs R400.9 and R400.10 of Structure ED-1 are replaced with:

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

Commented [IESBA158]: 280.2

**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.

Commented [IESBA159]: New paragraph

12. Paragraph 400.14 A1 of Structure ED-1 is revised as follows:

400.324 A1 ~~Examples of actions that might be safeguards to address threats to independence include:~~

Commented [IESBA160]: 290.32

- Not including individuals who provided the non-assurance service as members of the audit team.
- Having a professional accountant review the audit and non-assurance work as appropriate.
- Engaging another firm to evaluate the results of the non-assurance service.
- Having another firm re-perform the non-assurance service to the extent necessary to enable the other firm to take responsibility for the service.

13. Paragraph 400.3 A1 of Structure ED-1 is revised as follows:

~~400.72 A2403.3 A1 The more significant the threat, the more likely the firm's objectivity will be compromised and it will be unable to continue as auditor. The significance of the threat to objectivity might depend upon factors that are relevant in evaluating the level of any threats created by mergers and acquisitions includesuch-as:~~

Commented [IESBA161]: 290.34

- The nature and significance of the interest or relationship.
- The nature and significance of the related entity relationship (for example, whether the related entity is a subsidiary or parent).
- The length of time until the interest or relationship can reasonably be ended.

## Section 410

### Fees

#### Requirements and Application Material

14. Paragraphs 410.3 A2 and 410.3 A4 of Structure ED-1 are revised as follows:

410.43 A2 Examples of actions that might be safeguards to address threats created by the firm's dependence on fees charged to the audit client include:

Commented [IESBA162]: 290.215

- Increasing the client base in the firm to rReducing dependence on the audit client.
- External quality control reviews.
- Consulting a third party, such as a professional or regulatory body or a professional accountant, on key audit judgments.

410.53 A34 Examples of actions that might be safeguards to address threats created by fees generated from an audit client include:

Commented [IESBA163]: 290.216

- Increasing the client base of the partner or the office to rReducing dependence on the audit client.
- Having a professional accountant review the work or advise as necessary.
- Regular independent internal or external quality reviews of the engagement.

15. The last sentence in paragraph 410.3 A3 of Structure ED-1 is revised as follows:

410.3 A3410.5 A2 ...The significance of the threat will depend upon fFactors that are relevant in evaluating the level of any threat created by dependence of one partner or office on fees generated from an audit client includesuch as:

Commented [IESBA164]: 290.216

- The significance of the client qualitatively and/or quantitatively to the partner or office.
- The extent to which the compensation remuneration of the partner, or the partners in the office, is dependent upon the fees generated from the client.

16. Paragraph R410.4 (b) of Structure ED-1 is revised as follows:

**R410.64** Where an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities ....the firm shall:

Commented [IESBA165]: 290.217

- (a) Disclose to ...; and
- (b) Discuss whichwhether either of the safeguards below it will apply to reducefollowing actions might be a safeguard to address the threat to an acceptable levelcreated by the total fees received by the firm from the client, and if so, apply the selected safeguard it:
  - (i) Prior to the audit opinion ...; or
  - (ii) After the audit opinion on the second year's ...

17. The last sentence in paragraph 410.4 A3 of Structure ED-1 is revised as follows:

410.43 A1 When the total fees generated .... The significance of the threat will depend on fFactors that are relevant in evaluating the level of those threats includesuch as:

Commented [IESBA166]: 290.215



- The operating structure of the firm.
- Whether the firm is well established or new.
- The significance of the client qualitatively and/or quantitatively to the firm.

18. Paragraph 410.5 A3 of Structure ED-1 is revised as follows:

410.53 A34 Examples of actions that might be safeguards to address threats created by fees generated from an audit client include:

Commented [IESBA167]: 290.216

- Increasing the client base of the partner or the office to rReducing dependence on the audit client.
- Having a professional accountant review the work ~~or advise~~ as necessary.
- Regular independent internal or external quality reviews of the engagement.

19. Paragraph 410.7 A2 of Structure ED-1 is revised as follows:

410.97 A2 Examples of actions that might be safeguards to address threats created by overdue fees include is:

Commented [IESBA168]: 290.218

- Obtaining partial payment of overdue fees.
- Hhaving an additional professional accountant, who did not take part in the audit engagement, ~~provide advice~~ or review the work performed.

20. The last sentence in paragraph 410.9 A2 of Structure ED-1 is revised as follows:

410.9 A2 410.14 A2 The existence and significance of any threats will depend on fFactors that are relevant in evaluating the level of such threats include such as:

Commented [IESBA169]: 290.222

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- The nature of the service.
- The effect of the event or transaction on the financial statements.

21. Paragraph 410.9 A3 of Structure ED-1 is revised as follows:

410.149 A3 Examples of actions that might be safeguards to address threats created by a contingent fee include:

Commented [IESBA170]: 290.222

- Having a professional accountant review the relevant audit work ~~or advise~~ as necessary.
- Using professionals who are not members of the audit team to perform the non-assurance service.

## Section 411

### Compensation and Evaluation Policies

#### Requirements and Application Material

22. Paragraph 411.2 A2 of Structure ED-1 is revised as follows:

411.42 A2 Examples of an action that might be a safeguards include to address threats created by compensation and evaluation policies is having a professional accountant review the work of the audit team member.

Commented [IESBA171]: 290.223

Actions that might eliminate those threats include:

- Revising the compensation plan or evaluation process for that individual.
- ~~Removing such members that individual~~ from the audit team.
- ~~Having a professional accountant review the work of the audit team member.~~

## Section 430

### Actual or Threatened Litigation

#### Application Material

23. The last sentence in paragraph 430.2 A1 of Structure ED-1 is revised as follows:

430.2 A1 ~~430.4 A2~~ The significance of the threats created by actual or threatened litigation might depend on Factors that are relevant in evaluating the level of such threats include:

Commented [IESBA172]: 290.26

- The materiality of the litigation.
- Whether the litigation relates to a prior audit engagement.

24. Paragraph 430.2 A2 of Structure ED-1 is revised as follows:

430.42 A32 Examples of an actions that might be a safeguards to address threats created by actual or threatened litigation is include: to have a professional review the work performed.

Commented [IESBA173]: 290.226

If the litigation involves an audit team member, an action that might eliminate the threat is removing that individual from the audit team.

~~Having a professional review the work performed.~~

## Section 510

### Financial Interests

#### Requirements and Application Material

25. Paragraph 510.2 of Structure ED-1 is replaced with:

510.6 A1 Factors that are relevant in evaluating the level of threats created by holding financial interests in an audit client include:

Commented [IESBA174]: 290.102

- (a) The role of the individual holding the financial interest;
- (b) Whether the financial interest is direct or indirect; and
- (c) The materiality of the financial interest.

26. Subparagraph R510.6(c) of Structure ED-1 is deleted.

27. The last sentence in paragraph 510.11 A1 of Structure ED-1 is revised as follows:

~~510.11 A1~~ 510.13 A2 ~~The significance of any threat created depends on factors that are relevant in evaluating the level of such a threat includesuch as:~~

- The nature of the relationship between the audit team member and the close family member.
- The materiality of the financial interest to the close family member.
- Whether the financial interest is direct or indirect.

Commented [IESBA175]: 290.105

28. Paragraph 510.11 A2 of Structure ED-1 is revised as follows:

~~510.13 A2~~ 510.13 A3 ~~An eExamples of an actions that might be a safeguards to address threats created by having a financial interest as set out in paragraph R510.13(a) include: is having a professional accountant review the work of the audit team member.~~

Actions that might eliminate those threats include:

- The close family member disposing, as soon as practicable, of all of the financial interest or disposing of enough of an indirect financial interest so that the remaining interest is no longer material.
- ~~Having a professional accountant review the work of the audit team member.~~
- Removing the individual from the audit team.

Commented [IESBA176]: 290.106

29. The last sentence in paragraph 510.11 A3 of Structure ED-1 is revised as follows:

~~510.11 A3~~ 510.13 A5 ~~The existence and significance of any threat depends upon factors that are relevant in evaluating the level of such threats includes:~~

- The role of the individual on the audit team.
- Whether ownership of the entity is closely or widely held.
- Whether the interest allows the investor to control or significantly influence the entity.
- The materiality of the financial interest.

Commented [IESBA177]: 290.113

30. Paragraph 510.11 A4 of Structure ED-1 is revised as follows:

~~510.13 A4~~ 510.13 A6 ~~An eExamples of an actions that might be a safeguards to address threats created by having a financial interest set out in paragraph R510.13(c) is include:having a professional accountant review the work of the audit team member.~~

An action that might eliminate those threats is removing the audit team member with the financial interest from the audit team.

~~Having a professional accountant review the work of the audit team member.~~

Commented [IESBA178]: 290.113

31. Paragraph 510.11 A5 is revised as follows:

~~510.13 A5~~ 510.13 A7 ~~Factors that are relevant in evaluating the level of threats created by Whether the interests set out in paragraph R510.13 A4(d) create a self-interest threat depends on factors such asinclude:~~

- The firm's organizational, operating and reporting structure.

Commented [IESBA179]: 290.115

- The nature of the relationship between the individual and the audit team member.

32. Paragraph 510.11 A6 of Structure ED-1 is revised as follows:

510.1314 A86 Examples of actions that might be safeguards to address threats created by a financial interest set out in paragraph R510.13(d) include:

- ~~Removing the audit team member with the personal relationship from the audit team.~~
- Excluding the audit team member from any significant decision-making concerning the audit engagement.
- Having a professional accountant review the work of the audit team member.

An action to eliminate those threats is removing the audit team member with the personal relationship from the audit team.

Commented [IESBA180]: 290.115

## Section 511

### Loans and Guarantees

#### Requirements and Application Material

33. Paragraph 511.4 A1 is revised and paragraph 511.4 A2 of Structure ED-1 are merged as follows:

511.64 A24 If a loan from an audit client that is a bank or similar institution is made under normal lending procedures, terms and conditions and it is material to the audit client or firm receiving the loan, it might be possible to apply safeguards to reduce the create a self-interest threat, to an acceptable level.

511.4 A2 An example of an action that might be such a safeguard to address such a threat is having the work reviewed by a professional accountant from a network firm that is neither involved who is not a member of with the audit team that is neither involved with the audit, nor is a beneficiary of received the loan. If the loan is to a firm the reviewing professional might be someone from a network firm.

Commented [IESBA181]: 290.118

## Section 520

### Business Relationships

#### Requirements and Application Material

34. Paragraph 520.6 A2 of Structure ED-1 is revised as follows:

520.86 A2 Examples of Actions that might safeguards eliminate threats created by purchasing goods and services from an audit client include:

- Eliminating or reducing the magnitude of the transaction.
- Removing the individual from the audit team.

Commented [IESBA182]: 290.125

## Section 521

### Family and Personal Relationships Requirements and Application Material

#### General

35. Paragraph 521.2 A1 of Structure ED-1 is revised as follows:

521.42 A1 ~~The existence and significance of threats are created by family and personal relationships between an audit team member and a director or officer or, depending on their role, certain employees of the audit client. Factors that are relevant in evaluating the level of any such threats will depend on a number of factors including~~

- ~~The individual's responsibilities on the audit team; and~~
- The role of the family member or other individual within the client and the closeness of the relationship.

Commented [IESBA183]: 290.126

#### Immediate Family of an Audit Team Member

36. The last sentence in paragraph 521.3 A1 of Structure ED-1 is revised as follows:

~~521.3 A1~~ 521.5 A2 Factors that are relevant in evaluating the level significance of any such threats created include: will depend on factors such as:

- The position held by the immediate family member.
- The role of the ~~professional on the~~ audit team member.

37. Paragraph 521.3 A2 of Structure ED-1 is revised as follows:

521.53 A32 An eExamples of an actions that might be a safeguards to address the threats set out in paragraph 521.5 A1 include:is

~~Removing the individual from the audit team.~~

Sstructuring the responsibilities of the audit team so that the audit team member professional does not deal with matters that are within the responsibility of the immediate family member.

An action that might eliminate the threat is rRemoving the individual from the audit team.

Commented [IESBA184]: 290.128

#### Close Family of Audit Team Member

38. The last sentence in paragraph 521.4 A1 of Structure ED-1 is revised as follows:

~~521.4 A1~~ 521.7 A2 The significance of the threatsFactors that are relevant in evaluating the level of threats created by the relationships set out in paragraph 521.7 A1 include ~~will depend on factors such as:~~

- The nature of the relationship between the audit team member and the close family member.
- The position held by the close family member.
- The role of the ~~professional on the~~ audit team member.

Commented [IESBA185]: 290.129

39. Paragraph 521. A2 of Structure ED-1 is revised as follows:

521.74 A32 ~~An~~ Examples of an action that might be a safeguards to address threats created by the relationships set out in paragraph 521.7 A1 include:

- ~~Removing the individual from the audit team.~~

~~S~~structuring the responsibilities of the audit team so that the ~~professional audit team member~~ does not deal with matters that are within the responsibility of the close family member.

An action that might eliminate threats created by those relationships is ~~R~~removing the individual from the audit team.

Commented [IESBA186]: 290.129

*Other Close Relationships of Audit Team Member*

40. Paragraph 521.5 A1 of Structure ED-1 is revised as follows:

521.85 A1 ~~The significance of the threats created by~~ Factors that are relevant in evaluating the level of threats created by a such relationships set out in paragraph R521.5 will depend on factors such as include:

- The nature of the relationship between the individual and the audit team member.
- The position the individual holds with the client.
- ~~The role of the professional on the audit team member.~~

Commented [IESBA187]: 290.130

41. Paragraph 521.5 A2 of Structure ED-1 is revised as follows:

521.85 A2 ~~An~~ Examples of an action that might be a safeguard to address threats created by close relationships of audit team members include:

~~Removing the professional from the audit team.~~

~~S~~structuring the responsibilities of the audit team so that the audit team member ~~professional~~ does not deal with matters that are within the responsibility of the individual with whom the audit team member ~~professional~~ has a close relationship.

An action that might eliminate threats created by such relationships is ~~R~~removing the professional from the audit team.

Commented [IESBA188]: 290.130

*Relationships of Partners and Employees of the Firm*

42. Paragraph 521.6 A1 of Structure ED-1 is revised as follows:

521.96 A1 ~~The existence and significance of~~ Factors that are relevant in evaluating the level of any threat will depend on factors such as created by such relationships include:

- The nature of the relationship between the partner or employee of the firm and the director or officer or employee of the client;
- The interaction of the partner or employee of the firm with the audit team.
- The position of the partner or employee within the firm.
- The position the individual holds with the client.

Commented [IESBA189]: 290.131

43. Paragraph 521.6 A2 of Structure ED-1 is revised as follows:

521.96 A2 Examples of actions that might be safeguards to address threats created by such relationships include:

Commented [IESBA190]: 290.131

- Structuring the partner's or employee's responsibilities to reduce any potential influence over the audit engagement.
- Having a professional accountant review the relevant audit work performed.

## Section 522

### Recent Service with an Audit Client

#### Requirements and Application Material

44. Paragraph 522.3 A2 of Structure ED-1 is revised as follows:

522.53 A2 The existence and significance of any threats will depend on Factors that are relevant in evaluating the level of any threats created by such recent service with an audit client includesuch as:

Commented [IESBA191]: 290.143

- The position the individual held with the client.
- The length of time since the individual left the client.
- The role of the professional on the audit team member.

45. Paragraph 522.3 A3 of Structure ED-1 is revised as follows:

522.5 A3 An example of an action that might be a safeguard to address the threats set out in paragraph 522.5 A1 is conducting a review of the work performed by the individual as an audit team member.

Commented [IESBA192]: 290.143

## Section 524

### Employment with an Audit Client

#### Requirements and Application Material

46. Paragraph 524.3 A2 of Structure ED-1 is revised as follows:

524.53 A2 Even if the requirements of paragraph R524.5 are met, familiarity or intimidation threats might still be created. If one of those individuals joins the audit client in such a position and no significant connection remains between the firm and the individual, the existence and significance following Factors that are relevant in evaluating the level of any such familiarity or intimidation threats created include will depend on factors such as:

Commented [IESBA193]: 290.134

- The position the individual has taken at the client.
- Any involvement the individual will have with the audit team.
- The length of time since the individual was an audit team member or partner of the firm or network firm.
- The former position of the individual within the audit team, or firm or network firm. An example is includes whether the individual was responsible for maintaining regular contact with the client's management or those charged with governance.

47. Paragraph 524.3 A3 of Structure ED-1 is revised as follows:

524.3 A3 Examples of actions that might be safeguards to address threats created by such employment relationships include:

Commented [IESBA194]: 290.134

- Modifying the audit plan.
- Assigning individuals to the audit team who have sufficient experience in relationrelative to the individual who has joined the client.
- Having a professional accountant review the work of the former audit team member.

48. Paragraph 524.4 A2 of Structure ED-1 is revised as follows:

524.4 A2 An eExamples of an action that might be a safeguards to address threats set out in paragraph 524.7 A1 include: is having an appropriate professional review any significant judgments made by that individual while on the team.

Commented [IESBA195]: 290.136

An action that might eliminate such threats is Rremoving the individual from the audit team.  
Reviewing any significant judgments made by that individual while on the team.

## Section 525

### Temporary Personnel Assignments

#### Requirements and Application Material

49. Paragraph 525.2 A1 of Structure ED-1 is revised as follows:

525.2 A1 Examples of actions that might be safeguards that might be available to address any threats created by the loan of personnel by a firm or a network firm to an audit client include:

Commented [IESBA196]: 290.140

- Conducting an additional review of the work performed by the loaned personnel.
- Not including the loaned personnel as an audit team member.
- Not giving the loaned personnel audit responsibility for any function or activity that the personnel performed during the loaned personnel assignment.



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