

Agenda Item 10(b) – Technical Staff Preliminary Drafting Suggestions

Self-review Threat

One of the major concerns and recommendations in the APESB's submission to the IESBA on the NAS proposals was that the provisions about creating a self-review threat were too subjective and created quasi-materiality considerations. While the drafting of this provision has improved since the Exposure Draft, Technical Staff are still concerned that paragraph R600.14 creates too much subjectivity. This paragraph requires firms to determine whether there might be a self-review threat by evaluating whether there is a risk that the service impacts accounting records, internal controls or the financial statements and the audit team will evaluate or rely on any judgements:

*Before providing a non-assurance service to an **Audit Client**, a **Firm** or a **Network Firm** shall determine whether the provision of that service might create a self-review threat by evaluating whether there is a risk that:*

- (a) The results of the service will form part of or affect the accounting records, the internal controls over financial reporting, or the **Financial Statements** on which the **Firm** will express an opinion; and*
- (b) In the course of the audit of those **Financial Statements** on which the **Firm** will express an opinion, the **Audit Team** will evaluate or rely on any judgments made or activities performed by the **Firm** or **Network Firm** when providing the service.*

Technical Staff are of the view it should be made clear in the APESB NAS Exposure Draft that a self-review threat is created when NAS affects the accounting records, internal financial controls or financial statements for a PIE audit client.

This could be achieved with the following proposed **AUST** paragraph:

A self-review threat will be created when the results of a non-assurance service provided to an Audit Client that is a Public Interest Entity will form part of or affect the accounting records, the internal controls over financial reporting, or the Financial Statements on which the Firm will express an opinion.

Technical Staff are also concerned that the self-review prohibition in paragraph R600.16 of the IESBA Revised NAS Provisions should be strengthened to make it clear that if there is a self-review threat from the provision of NAS to a PIE audit client that it is prohibited. This could be achieved with the following suggested marked-up changes:

A Firm or a Network Firm shall not provide a non-assurance service to an Audit Client that is a Public Interest Entity if the provision of that service ~~might creates~~ a self-review threat in relation to the Financial Statements on which the Firm will express an opinion. (Ref: Para. 600.13 A1, ~~and~~ R600.14 and AUST R600.15).

If this proposal is adopted, specific prohibitions throughout Section 600 based on the self-review threat would need to be amended to reflect the above. For example, paragraph R603.5 of the IESBA Revised Non-Assurance Services Provisions could be amended as marked-up in the following:

A Firm or a Network Firm shall not provide a valuation service to an Audit Client that is a Public Interest Entity if the provision of such valuation service ~~might create~~ a self-review threat. (Ref: Para. R600.14, AUST R600.15 and R600.16).

Similar amendments would then be required to paragraphs R604.15 (tax advisory and tax planning services), R604.19 (valuation for tax purposes), R604.24 (assistance in the resolution of tax disputes), R605.6 (internal audit services), R606.6 (IT systems services), R607.6 (litigation support services), R608.7 (legal advice), and R610.8 (corporate finance services).

Advocacy Threat

If the APESB included a strict prohibition concerning the provision of NAS to a PIE audit client that creates an advocacy threat, this would require the drafting of requirement and application material similar to the amendments to introduce the self-review threat prohibition.

Specific prohibitions throughout Section 600 based on the self-review threat would also need to be considered for amendment if relevant in relation to advocacy threat.

For example, paragraph R604.15 could be amended as marked-up in the following:

A Firm or a Network Firm shall not provide tax advisory and tax planning services to an Audit Client that is a Public Interest Entity if the provision of such services ~~might create~~ a self-review or advocacy threat. (Ref: Para. R600.14, AUST R600.15 and R600.16 and others relating to advocacy).

Other paragraphs relating to advocacy in Section 600 would need to be reviewed, including those referring to safeguards for advocacy threats (for example, 604.15 A1) which would have to be reconsidered.