

## Summary of Prohibitions in the IESBA Code Applicable to Audits of Public Interest Entities March 2024

The *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) contains requirements and application material that apply when a firm audits a public interest entity (PIE). This high-level summary highlights specific prohibitions that are applicable to PIE audits, especially in relation to non-assurance services (NAS), relationships, interests or circumstances that bear on independence.<sup>1</sup>

This publication is intended to be a useful reference to stakeholders, including regulators and audit oversight bodies, audit firms and individual audit practitioners, the corporate governance community, investors, preparers, and educational bodies or institutions. References to the relevant provisions in the Code are provided in footnotes to assist further understanding of the prohibitions.

This summary is not a substitute for reading the Code, which provides further specific details on the relevant provisions.

If a service, interest, relationship or circumstance is not covered by one of the prohibitions below, a firm is required to apply the [conceptual framework](#) to comply with the International Independence Standards. The application of the conceptual framework involves an analysis of the service, interest, relationship or circumstance to identify, evaluate and address threats to independence, and involves using a reasonable and informed third party test. If the service, interest, relationship or circumstance creates a threat that cannot be eliminated, or if safeguards are not available to reduce the threat to an acceptable level, the firm is required to decline or terminate the service, interest, relationship or circumstance, or end the audit engagement.

### Prohibitions in Relation to PIE Audit Clients<sup>2</sup>

#### *NAS Provided by a Firm or Network Firm that Might Create a Self-review Threat<sup>3, 4</sup>*

- Any NAS that might create a self-review threat.<sup>5</sup> These include:
  - Valuation services<sup>6</sup>
  - Tax advisory and tax planning services<sup>7</sup>

<sup>1</sup> This summary reflects the changes from the 2023 version of the Code incorporating approved pronouncements effective in December 2024, i.e., the [technology-related revisions](#) and [revisions to the definitions of listed entity and public interest entity](#).

<sup>2</sup> The NAS prohibitions also apply in circumstances where a firm or a network firm uses technology to provide a NAS or where it provides, sells, resells or licenses technology resulting in the provision of a NAS as set out in 600.6 and 520.A3 as set out in the [technology-related revisions](#).

<sup>3</sup> R600.15

<sup>4</sup> [IESBA Staff Questions & Answers Publication](#), Question 9

<sup>5</sup> Materiality of the outcome or result of the proposed NAS is not a relevant factor when evaluating whether a self-review threat might be created.

<sup>6</sup> R603.5

<sup>7</sup> R604.15

- Valuation for tax purposes<sup>8</sup>
- Providing assistance in the resolution of a tax dispute<sup>9</sup>
- Internal audit services<sup>10</sup>
- IT systems services<sup>11</sup>
- Litigation support services<sup>12</sup>
- Legal advice<sup>13</sup>
- Corporate finance services<sup>14</sup>

The Code prohibits the following NAS to a PIE audit client given the self-review threat that would be created:

- Accounting and bookkeeping services, including preparing accounting records and financial statements.<sup>15, 16</sup>
- Calculations of current and deferred tax liabilities (or assets).<sup>17</sup>

### *Other Prohibitions*

In addition to the prohibitions on providing NAS to a PIE audit client that might create a self-review threat, the Code specifies certain other prohibited NAS, interests, relationships and circumstances between a PIE audit client and the firm or network firm, or specified partners or employees of the firm and their immediate family members. This is a high-level summary only.

#### Applicable to Firms or Network Firms (Unless Otherwise Stated)

- Assuming a management responsibility for a PIE audit client.<sup>18</sup>
- A firm allowing the amount of the audit fee to be influenced by non-audit services provided by a firm or network firm to the PIE audit client.<sup>19</sup>
- A firm charging a contingent fee for a PIE audit engagement.<sup>20</sup>
- Charging a contingent fee for a NAS provided to a PIE audit client when the fee is material or expected to be material to the firm or network firm, or when the outcome of the NAS (and therefore the fee) is dependent on a future or contemporary judgment related to the audit of a material amount in the financial statements.<sup>21</sup>

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<sup>8</sup> R604.19

<sup>9</sup> R604.24

<sup>10</sup> R605.6

<sup>11</sup> R606.6

<sup>12</sup> R607.6

<sup>13</sup> R608.7

<sup>14</sup> R610.8

<sup>15</sup> R601.6

<sup>16</sup> An exception is set out in paragraph R601.7, under which statutory financial statements may be prepared for a downstream related entity of a PIE audit client, provided specified conditions are met.

<sup>17</sup> R604.10

<sup>18</sup> R400.18 (Also applicable to non-PIE audit clients)

<sup>19</sup> R410.6 (Also applicable to non-PIE audit clients)

<sup>20</sup> R410.9 (Also applicable to non-PIE audit clients)

<sup>21</sup> R410.10 (Also applicable to non-PIE audit clients)

- A firm continuing to serve as the auditor for a PIE audit client when the total fees from that client represent more than 15% of the total fees received by the firm in each year after the audit opinion for the fifth year is issued, unless there is a compelling reason for continuing as auditor having regard to the public interest, provided specific conditions are met.<sup>22</sup>
- A firm evaluating or compensating a key audit partner based on that partner's success in selling NAS to the partner's PIE audit client.<sup>23</sup>
- Providing a NAS to a PIE audit client or any entity controlling or controlled by such PIE audit client if concurrence from those charged with governance (TCWG) has not been obtained.<sup>24</sup>
- A tax service, or recommending a transaction to a PIE audit client, related to marketing, planning, or opining in favor of a tax treatment that was initially recommended, directly or indirectly, by the firm or network firm, and a significant purpose of the tax treatment or transaction is tax avoidance, unless the firm is confident that the proposed treatment has a basis in applicable tax law or regulation that is likely to prevail.<sup>25</sup>
- Tax advisory and tax planning services,<sup>26</sup> or corporate finance services,<sup>27</sup> when the effectiveness of the advice provided 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.
- Acting as an advocate before a tribunal or court to assist in the resolution of a tax dispute,<sup>28</sup> other disputes or litigation.<sup>29</sup>
- Acting as an expert witness in a matter involving the PIE audit client<sup>30</sup> unless appointed by a tribunal or court or in relation to a class action.<sup>31</sup>
- Negotiating on the PIE audit client's behalf as part of a recruiting service.<sup>32</sup>
- Services involving the recruitment of directors or officers of the PIE audit client, or senior management who will have significant influence over accounting records or financial statements.<sup>33, 34</sup>
- Promoting, dealing in, or underwriting the shares, debt or other financial instruments issued by the PIE audit client or providing advice on investment in such shares, debt or other financial instruments.<sup>35</sup>

Applicable to Individuals Within a Firm or Network Firm (Unless Otherwise Stated)

- Participating as an audit team member when an immediate family member is a director or officer of the PIE audit client, or an employee able to exert significant influence over the client's accounting records or financial

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<sup>22</sup> R410.20

<sup>23</sup> R411.4 (Also applicable to non-PIE audit clients)

<sup>24</sup> R600.23

<sup>25</sup> R604.4, as such a NAS creates self-interest, self-review and advocacy threats. (Also applicable to non-PIE audit clients)

<sup>26</sup> R604.13 (Also applicable to non-PIE audit clients)

<sup>27</sup> R610.6 (Also applicable to non-PIE audit clients)

<sup>28</sup> R604.26

<sup>29</sup> R608.11

<sup>30</sup> R607.9 (Also applicable to an individual within a firm or network firm)

<sup>31</sup> Specific provisions relating to acting as an expert witness in a class action are set out in paragraph 607.7 A3.

<sup>32</sup> R609.5 (Also applicable to non-PIE audit clients)

<sup>33</sup> R609.6 (Also applicable to non-PIE audit clients)

<sup>34</sup> Includes recruiting services that relate to the identification and selection, or advising on the terms of employment, of such persons

<sup>35</sup> R610.5 (Also applicable to non-PIE audit clients)

statements, or was in such a position during any period covered by the engagement or the financial statements.<sup>36</sup>

- Including an individual on the audit team if that individual was a director or officer of the PIE audit client, or an employee able to exert significant influence over the client's accounting records or financial statements during the period covered by the audit report.<sup>37</sup>
- A partner or employee serving as a director or officer of a PIE audit client.<sup>38</sup>
- A partner or employee serving as Company Secretary of a PIE audit client unless specified conditions are met.<sup>39</sup>
- A former partner or audit team member joining a PIE audit client as a director or officer or as an employee in a position to exert significant influence over the client's financial statements if significant connections with the firm or network firm remain.<sup>40</sup>
- A senior partner or managing partner of a firm,<sup>41</sup> or a key audit partner,<sup>42</sup> joining a PIE audit client as a director or officer or as an employee in a position to exert significant influence over the client's financial statements before a defined period of time.
- Loaning personnel to a PIE audit client except under predefined circumstances.<sup>43</sup>
- A key audit partner serving for more than seven years on the audit of a PIE audit client.<sup>44</sup>
- For a key audit partner serving a cooling-off period, engaging in certain restricted activities during the cooling-off period.<sup>45</sup>
- Serving as General Counsel of the PIE audit client.<sup>46</sup>

#### Applicable to Firms, Network Firms or Audit Team Members

- Accepting gifts and hospitality from a PIE audit client the value of which is other than trivial and inconsequential.<sup>47</sup>
- Offering, or encouraging others to offer, any inducement made with the intent to improperly influence the behavior of the recipient or of another individual with respect to a PIE audit client.<sup>48</sup>
- Accepting, or encouraging others to accept, any inducement made with the intent to improperly influence the behavior of the recipient or of another individual with respect to a PIE audit client.<sup>49</sup>

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<sup>36</sup> R521.5 (Also applicable to non-PIE audit clients)

<sup>37</sup> R522.3 (Also applicable to non-PIE audit clients)

<sup>38</sup> R523.3 (Also applicable to non-PIE audit clients)

<sup>39</sup> R523.4 (Also applicable to non-PIE audit clients)

<sup>40</sup> R524.4 (Also applicable to non-PIE audit clients)

<sup>41</sup> R524.7

<sup>42</sup> R524.6

<sup>43</sup> R525.4 (Also applicable to non-PIE audit clients)

<sup>44</sup> R540.5

<sup>45</sup> R540.21

<sup>46</sup> R608.9 (Also applicable to non-PIE audit clients)

<sup>47</sup> R420.3 (Also applicable to non-PIE audit clients)

<sup>48</sup> R340.7, 420.3 A1 and A2 (Also applicable to non-PIE audit clients)

<sup>49</sup> R340.8, 420.3 A1 and A2 (Also applicable to non-PIE audit clients)

- Close business relationships with a PIE audit client or its management that are significant or entail a material financial interest.<sup>50</sup>

Applicable to Firms or Network Firms, or Audit Team Members or their Immediate Family Members

- Direct financial interest or material indirect financial interest in a PIE audit client,<sup>51, 52, 53</sup> including a financial interest held in a trust for which the firm, network firm or individual acts as trustee,<sup>54, 55</sup> or in an entity that has a controlling interest in the client and the client is material to the entity.<sup>56</sup>
- Financial interests in an entity in which a PIE audit client has a material financial interest, or whose affairs the client can significantly influence.<sup>57</sup>
- Loan or guarantee of a loan to a PIE audit client unless it is immaterial to the parties involved.<sup>58</sup>
- Loan or guarantee of a loan from (i) a PIE audit client that is a bank or similar institution unless provided under normal lending procedures, terms and conditions;<sup>59</sup> or (ii) a PIE audit client that is not a bank or similar institution unless it is immaterial to the parties involved.<sup>60</sup>
- Deposits or a brokerage account with a PIE audit client that is a bank, broker or similar institution unless held under normal commercial terms.<sup>61</sup>

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<sup>50</sup> R520.4 (Also applicable to non-PIE audit clients)

<sup>51</sup> R510.4 (Also applicable to non-PIE audit clients)

<sup>52</sup> Also applicable to (a) any other partner in the office where the engagement partner practices in connection with an audit engagement, or any of that other partner's immediate family, or (b) any other partner or managerial employee who provides non-audit services to the audit client, unless their involvement is minimal, and any of that individual's immediate family

<sup>53</sup> An exception to paragraph R510.4 is set out in paragraph R510.5 provided that specific conditions are met.

<sup>54</sup> R510.7 (Also applicable to non-PIE audit clients)

<sup>55</sup> Paragraph R510.7 specifies an exception provided that specific conditions are met.

<sup>56</sup> R510.6 (Also applicable to non-PIE audit clients)

<sup>57</sup> R510.8 (Also applicable to non-PIE audit clients)

<sup>58</sup> R511.4 (Also applicable to non-PIE audit clients)

<sup>59</sup> R511.5 (Also applicable to non-PIE audit clients)

<sup>60</sup> R511.7 (Also applicable to non-PIE audit clients)

<sup>61</sup> R511.6 (Also applicable to non-PIE audit clients)