

In this KLiP, we will cover:

## **15. Provision of Non-Assurance Services to an Audit Client**

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.

### **EVALUATING THREATS**

Multiple non-assurance services might be provided to an audit client however, the combined effect of threats created by providing those services is relevant to the firm's evaluation of threats.

Some of the general factors that are relevant in evaluating the level of threats include:

1. The nature, scope and purpose of the service.
2. 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.
3. The nature and extent of the impact of the service on the systems that generate information that forms a significant part of the client's:
  - ❖ Accounting records or financial statements on which the firm will express an opinion.
  - ❖ Internal controls over financial reporting.
4. Whether providing non-assurance service to the audit client that is a public interest entity might be perceived to result in a higher level of threat.

### **ADDRESSING THREATS**

The Code expressly prohibits a firm or network firm from providing certain services to an audit client because the threats created cannot be addressed by applying safeguards.

Therefore, in circumstances where safeguards might not be available for the threats created by providing a non-assurance service, the Code requires the firm to apply the conceptual framework i.e., by declining or ending the non-assurance service, or the audit engagement respectively.

As we proceed, we will learn a few examples of actions, including safeguards that might address threats to independence.

### **Prohibition on assuming management responsibilities:**

A firm or a network firm shall not assume a management responsibility for an audit client, as providing non-assurance services to an audit client creates self-interest and self-review threats.

It also creates familiarity and advocacy threat because they would be too closely aligned with the views and interests of the management.

Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgement. To avoid management responsibilities, the firm shall ensure that client management makes all judgements and decisions that are deemed appropriate.

### **Providing non-assurance services to an audit client that later becomes a Public Interest Entity:**

When a non-assurance service is provided, either currently or previously, by a firm or a network firm to an audit client, the firm's independence is compromised when the client becomes a public interest entity, unless:

- i. The previous non-assurance service complies with the Code, that relates to audit clients that are not public interest entities;
- ii. Non assurance services that are currently in progress, but not permitted under the Code, are to be ended before or as soon as practicable, after the client becomes a public interest entity; and
- iii. The threats that are created are not at an acceptable level.

Here's the list of non-assurance services provided to the audit clients. These examples are not exhaustive.

- a. Accounting and Bookkeeping services
- b. Administrative services
- c. Valuation services
- d. Taxation services
- e. Internal Audit services
- f. Information Technology Systems Services
- g. Litigation Support Services
- h. Legal Services
- i. Recruiting Services
- j. Corporate Finance Services

The Code also prohibits the firms and network firms from providing certain non-assurance services to the audit clients because in some circumstances, the threats cannot be addressed by applying safeguards.

With this we come to the end of the KLiP. We will continue to discuss in depth about non-assurance service provided to audit clients, in our following KLiPs.

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