

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

In this KLiP, we will cover sub-topic:

d. Tax Services

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

Tax services comprise a broad range of services, including activities such as:

1. Tax return preparation
2. Tax calculations for the purpose of preparing the accounting entries
3. Tax planning and other tax advisory services
4. Tax services involving valuations
5. Assistance in the resolution of tax disputes

General factors relevant in evaluating the level of threats include:

- ✓ The type of engagement.
- ✓ The system by which the tax authorities assess and administer the tax in question and the role of the firm or network firm in that process.
- ✓ The complexity of the relevant tax regime and the degree of judgment necessary in applying it.

1. **Tax return preparation:** Providing tax returns services does not usually create a threat.

2. **Tax calculations for the purpose of preparing the accounting entries**

Preparing calculations of current and deferred tax liabilities (or assets) to all audit clients for the purpose of preparing accounting entries, that will be subsequently audited by the firm creates a self-review threat. It might have a material effect on the financial statements on which the firm will express opinion.

For a not a public interest entity, examples of actions that might be safeguards to address such a self-review threat include:

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

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.

3. Tax planning and other tax advisory services to all audit clients

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

Additional factors to consider in evaluating the level of threats include:

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

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

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

A firm or a network firm shall not provide tax planning and other tax advisory services specially, when the effectiveness of the tax advice depends on a particular accounting treatment or presentation in the financial statements and:

- 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.

We will continue with the sub-topic **d: Tax Services**, in our next KLiP.

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