



Provision of non-assurance services to audit clients

Audit firms have traditionally provided their audit clients with a variety of non-assurance services that are consistent with their skills and expertise. This is an efficient and effective way for companies to take advantage of the knowledge that their external advisors have of their business and operation. In addition, an independent viewpoint from external advisors can often shed light on specialist areas or intractable internal issues within an organization. Common non-assurance services provided by audit firms include:

- Company secretarial services
- Accounting and bookkeeping services
- Taxation services
- Valuation services
- Information technology system services

However, providing non-assurance services to audit clients may create threats to the independence of the audit firm. The threats created are most often self-review, self-interest and advocacy threats.

Ethical requirements under the Institute's code

The Hong Kong Institute of CPAs' *Code of Ethics for Professional Accountants* sets out the ethical requirements in relation to the provision of non-assurance services to audit clients. Practi-

tioners are reminded of the following considerations when providing non-assurance services to an audit client:

- Audit firms should perform "threats and safeguards" evaluation before accepting an engagement to provide a non-assurance service to an audit client. If a threat is created that cannot be reduced to an acceptable level by the application of safeguards, the non-assurance service should not be provided. Firms are reminded to document the relevant facts and circumstances and the determination on the threats and safeguards evaluation.
- Under paragraph 290.162 of the code, audit firms shall not assume a management responsibility for an audit client. Assuming a management responsibility for an audit client creates threats that would be so significant that no safeguards could reduce the threats to an acceptable level. However, activities that are routine and administrative, or involve matters that are insignificant, generally are deemed not to be a management responsibility.
- If a firm is deemed to be a network firm, the firm shall be independent of the audit clients of the other firms within the network (unless otherwise stated in the code). The independence requirements that

apply to a network firm shall apply to any entity, such as consulting practice or professional law practice, which meets the definition of a network firm. For further guidance on networks and network firms, please refer to paragraphs 290.13-24 of the code.

- The code contains more stringent independence requirements in respect of audits of public interest entities. There are limitations on the type and extent of non-assurance services that can be offered to audit clients that are public interest entities. For example, audit firms are prohibited from providing bookkeeping and accounting services, and tax calculation services to audit clients that are public interest entities, except in emergency situations. Firms are reminded that public interest entities include all listed entities and any additional entities, or certain categories of entities, that they determine to treat as public interest entities.
- When the total fees from an audit client represent a large proportion of the total fees of the audit firm, the dependence on that client and concern about losing the client creates a self-interest or intimidation threat. Firms should evaluate the significance of such treats and apply appropriate



safeguards. If an audit client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities represent more than 15 percent of the total fees received by the firm, the firm is required to disclose to those charged with governance of the audit client such fact and the safeguards applied.

Members are advised to read the code for details of the independence provisions. Small- and medium-sized practitioners can also refer to Ethics Circular 1 *Guidance for Small and Medium Practitioners on the Code of Ethics for Professional Accountants* issued by the Institute for more guidance on the adoption of the code on the provision of non-assurance services to an audit client.

Update to the independence provisions

In July 2015, the Institute's code was updated in response to the International Ethics Standards Board for Accountants' pronouncement on *Changes to the Code Addressing Certain Non-Assurance Services Provisions for Audit and Assurance Clients*. The update aims to reinforce the independence provisions in the code and at the same time, promote greater consistency of application of the provisions.

The revised provisions include:

- Removal of provisions that permitted an audit firm to provide certain bookkeeping and taxation services to audit clients that are public interest entities in emergency situations;
- Providing new and clarified guidance regarding what constitutes management responsibility; and
- Providing clarified 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 public interest entities.



The above revisions also include corresponding changes to the code's non-assurance services provisions with respect to other assurance clients. The changes will be effective on 15 April, except for the changes to the independence requirements for audit engagements and review engagements (i.e. section 290 of the code) which will be effective for audits of financial statements for periods commencing on or after 15 April. Early adoption is permitted.



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