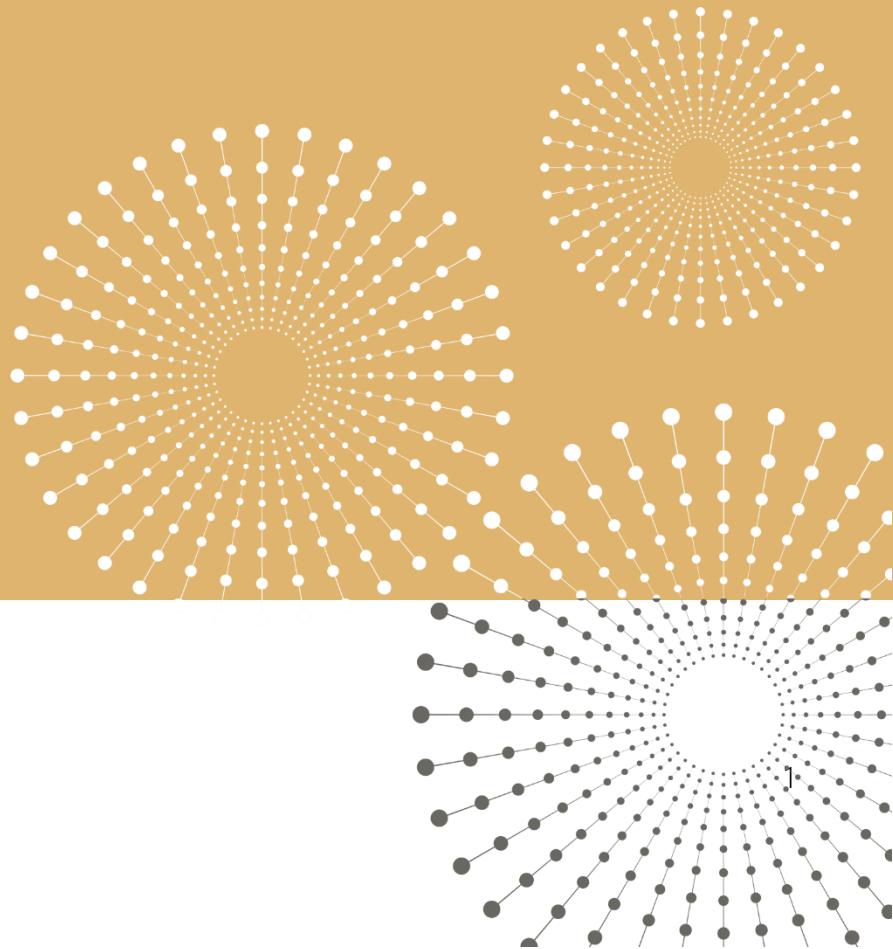


# Non-Assurance Services Prohibitions

Staff guidance document

July 2022



# Introduction and purpose

Professional and Ethical Standard 1<sup>1</sup> requires assurance practitioners and their firms to be independent when undertaking assurance engagements.

Assurance practitioners must apply the conceptual framework<sup>2</sup> to assess whether interests, relationships, actions or the provision of non-assurance services create threats to their independence. The process involves a rigorous analysis to identify, evaluate and address threats to independence, including using the reasonable and informed third party test.

For audit and review engagements, Section 400 of Professional and Ethical Standard 1 sets out the overarching prohibition on assuming a management responsibility. Section 600 sets out the requirements and application material relevant to applying the conceptual framework when providing non-assurance services to audit or review clients.

The analysis of threats to independence must consider the aggregate impact of multiple threats, such as where the provision of non-assurance services to an audit client creates more than one threat. If threats to independence cannot be eliminated, and if safeguards are not available to reduce the threat to an acceptable level, the firm is required to decline or end the audit or review engagement.

Some situations will always create threats that cannot be reduced to an acceptable level. These situations are therefore explicitly prohibited in Professional and Ethical Standard 1. These prohibitions are either strict prohibitions or prohibitions based on specific facts such as materiality of the relevant matter to the financial statements.

Professional and Ethical Standard 1 imposes more extensive prohibitions for audit clients that are Public Interest Entities<sup>3</sup>.

The following table provides a high-level summary of the prohibitions relating to the provision of non-assurance services to audit or review clients and include references to relevant paragraphs in Professional and Ethical Standard 1.

The summary does not amend or override Professional and Ethical Standard 1, the text of which alone is authoritative. Reading the summary is not a substitute for reading Professional and Ethical Standard 1.

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<sup>1</sup> Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)

<sup>2</sup> Refer to section 120 of Professional and Ethical Standard 1

<sup>3</sup> Public Interest Entity is defined in Professional and Ethical Standard 1 as, any entity that meets the Tier 1 criteria in accordance with XRB A1 *Application of the Accounting Standards Framework* and is not eligible to report in accordance with the accounting requirements of another tier.

## Summary of PES 1 Prohibitions Relating to the Provision of Non-Assurance Services to Audit or Review Clients

| Prohibited NAS  | All Audit or Review Clients | PIE Audit or Review Clients only              | Non-PIE Audit or Review Clients only   |
|---|-----------------------------|---|--|
|   | Strictly prohibited         | Strictly prohibited by factors listed         | Prohibited based on specific factors   |
| Assuming a management responsibility for an audit or review client. When performing a professional activity for an audit or review client, the firm shall be satisfied that client management makes all judgements and decisions that are the proper responsibility of management.  | X<br>(R400.13, R400.14)     |   |  |
| <b>Compensating or evaluating a key audit or key assurance partner based on that partner's success in selling NAS to their audit or review client.</b>  | X<br>(R411.4)               |   |  |
| Provision of a NAS to an audit or review client   |                             | Self-review threat might be created (R600.16) |  |
| Accounting and bookkeeping services, including preparing accounting records or financial statements (R601.5 & R601.6) subject to limited exceptions <sup>4</sup>  | X                           |   |  |
| Valuation service   |                             | Self-review threat might be created (R603.5)  | X<br>Significant degree of subjectivity and material effect on financial statements (R603.4) |
| Tax services or recommending transactions related to marketing, planning, or opining in favour of a tax treatment initially recommended, directly or indirectly, by the firm where a significant purpose is tax avoidance unless the firm is confident the treatment has a basis in applicable tax law or regulation that is likely to prevail (R604.4) | X                           |   |  |
| Calculation of current or deferred tax liabilities or assets  |                             | X<br>(R604.10)                                |  |
| Tax advisory and tax planning services where the effectiveness of the advice requires a particular accounting treatment or presentation in the financial statements and the audit or review team has doubt as to its appropriateness  |                             |   | X<br>(R604.13)   |
| Tax advisory and tax planning services <sup>5</sup>   |                             | Self-review threat might be created (R604.15) |  |

<sup>4</sup> Providing accounting and bookkeeping services to an audit or review client that is not a PIE is prohibited unless the services are of a routine or mechanical nature and threats are reduced to an acceptable level. Routine or mechanical services involve information, data or material in relation to which the client has made any judgements or decisions that might be necessary and require little or no professional judgement. (Refer PES 1 paragraphs 601.5 A1-601.5 A2) Preparing statutory financial statements is allowed for certain related entities of PIE audit or review clients and subject to conditions in paragraph R601.7 of PES 1.

<sup>5</sup> Paragraph 604.12 A2 provides that tax advisory and tax planning services will not create a self-review threat if such services: (a) are supported by a tax authority or other precedent; (b) are based on an established practice; or have a basis in tax law that the firm is confident is likely to prevail.

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|--|-----------------------------|---|--|
|  | Strictly prohibited         | Strictly prohibited by factors listed         | Prohibited based on specific factors   |
| Valuation for tax purposes   |                             | Self-review threat might be created (R604.19) |  |
| Providing assistance in the resolution of tax disputes   |                             | Self-review threat might be created (R604.24) |  |
| Acting as an advocate for a client in the resolution of tax disputes before a tribunal of court                |                             | X<br>(R604.26)                                | X<br>If material to the financial statements (R604.25)                                       |
| Internal audit services <sup>6</sup>   |                             | Self-review threat might be created (R605.6)  |  |
| Designing or implementing IT systems <sup>7</sup>  |                             | Self-review threat might be created (R606.6)  |  |
| Litigation support services involving estimating damages or other amounts that affect the financial statements |                             |   | X<br>Significant degree of subjectivity and material effect on financial statements (R603.4) |
| Litigation support services  |                             | Self-review threat might be created (R607.6)  |  |
| Acting as an expert witness  |                             | X<br>unless 607.7 A3 applies                  |  |
| Legal advice   |                             | Self-review threat might be created (R608.7)  |  |

<sup>6</sup> A firm must be satisfied that the client has taken management responsibility for the internal audit services.

<sup>7</sup> A firm must be satisfied that the client has taken management responsibility for the information technology systems services.

| Prohibited NAS  | All Audit or Review Clients | PIE Audit or Review Clients only                | Non-PIE Audit or Review Clients only                      |
|---|-----------------------------|---|---|
|   | Strictly prohibited         | Strictly prohibited by factors listed           | Prohibited based on specific factors                      |
| Serving as general counsel  | X<br>(R608.9)               |   |   |
| Acting in an advocacy role in resolving a dispute or litigation before a tribunal or court  |                             | X<br>(R608.11)                                  | X<br>If material to the financial statements<br>(R608.10) |
| Performing negotiations for a client as part of a recruiting service  | X<br>(R609.5)               |   |   |
| Recruiting services, recommending persons or advising on employment terms, relating to positions as director or officer, or for a senior management position that can exert significant influence over accounting records or the financial statements | X<br>(R609.6)               |   |   |
| Promoting, dealing or underwriting the shares, debt or other financial instruments or providing advice on investment in such shares, debt or other financial instruments  | X<br>(R610.5)               |   |   |
| Corporate finance advisory services where the effectiveness of the advice depends on a particular accounting treatment or presentation in the financial statements and the audit or review team has doubt as to its appropriateness                   | X<br>(R610.6)               |   |   |
| Corporate finance services  |                             | Self-review threat might be created<br>(R610.8) |   |