

1.295 Nonattest Services

1.295.010 Scope and Applicability of Nonattest Services

.01 When a *member* performs nonattest services for an *attest client*, self-review, management participation, or advocacy *threats* to the *member's* compliance with the “Independence Rule” [1.200.001] may exist. When significant *independence threats* exist during the *period of the professional engagement* or the period covered by the *financial statements* (except as provided for in paragraph .03), *independence* will be *impaired* unless the *threats* are reduced to an *acceptable level* and any requirements included in the *interpretations* of the “Nonattest Services” subtopic [1.295] under the “Independence Rule” have been met.

.02 For purposes of the *interpretations* of the “Nonattest Services” subtopic [1.295] under the “Independence Rule” [1.200.001], the term *member* includes the *member's firm*.

.03 *Period of engagement.* A *member's independence* would not be *impaired* if the *member* performed nonattest services that would have otherwise *impaired independence* during the period covered by the *financial statements* if all of the following conditions exist:

- a. The nonattest services were provided prior to *period of the professional engagement*.
- b. The nonattest services related to periods prior to the period covered by the *financial statements*.
- c. The *financial statements* for the period to which the nonattest services relate were audited by another *firm* (or in the case of a review engagement, reviewed or audited by another *firm*).

.04 *Activities related to attest services.* Performing attest services often involves communications between the *member* and *client* management regarding

- a. the *client's* selection and application of accounting standards or policies and *financial statement* disclosure requirements;
- b. the appropriateness of the *client's* methods used in determining accounting and financial reporting;
- c. adjusting journal entries that the *member* has prepared or proposed for *client* management consideration; and
- d. the form or content of the *financial statements*.

These communications are considered a normal part of the *attest engagement* and are not considered nonattest services subject to the “General Requirements for Performing Nonattest Services” [1.295.040] and “Documentation Requirements When Providing Nonattest Services” [1.295.050] interpretations.

.05 However, the *member* should exercise judgment in determining whether his or her involvement has become so extensive that it would constitute performing a separate service

which would be subject to the “General Requirements for Performing Nonattest Services” interpretation [1.295.040].

.06 For example, activities such as *financial statement* preparation, cash-to-accrual conversions, and reconciliations are considered outside the scope of the *attest engagement* and, therefore, constitute a nonattest service. Such activities would not *impair independence* if the requirements of the *interpretations* of the “Nonattest Services” subtopic [1.295] are met.

.07 *Engagements subject to independence rules of certain regulatory or standard-setting bodies.* Threats to compliance with the “Independence Rule” [1.200.001] would not be at an *acceptable level* and could not be reduced to an *acceptable level* through the application of *safeguards* if a member is not in compliance with the *independence* regulations of authoritative regulatory bodies that are more restrictive than the *interpretations* of the “Nonattest Services” subtopic [1.295] under the “Independence Rule” (examples of such authoritative bodies are the SEC, the Government Accountability Office [GAO], the Department of Labor [DOL], the Public Company Accounting Oversight Board [PCAOB], and state boards of accountancy) when a member performs nonattest services for an *attest client* and is required to be independent of the *attest client* under the regulations of the applicable regulatory body. *Independence* would be *impaired* under these circumstances. [Prior reference: paragraph .05 of ET section 101]

.08 Refer to the “Staff Augmentation Arrangements” interpretation [1.275.007] when the engagement involves lending *firm* personnel (augmented staff) to an *attest client* whereby the *attest client* is responsible for the direction and supervision of the activities performed by the augmented staff.

Effective Date

.09 Paragraph .06 of this interpretation is effective for engagements covering periods beginning on or after December 15, 2014.

[See Revision History Table.]



A nonauthoritative question and answer regarding the period of the professional engagement is available. See Ethics Questions & Answers section 200.02, “Period of Impairment.”

1.295.020 Cumulative Effect on Independence When Providing Multiple Nonattest Services

.01 The *interpretations* of the “Nonattest Services” subtopic [1.295] under the “Independence Rule” [1.200.001] include various examples of nonattest services that individually would not *impair independence* because the *safeguards* in the “General Requirements for Performing

Nonattest Services” interpretation [1.295.040] reduce the self-review and management participation *threats* to an *acceptable level*. However, performing multiple nonattest services can increase the significance of these *threats* as well as other *threats* to *independence*.

.02 Before agreeing to perform nonattest services, the member should evaluate whether the performance of multiple nonattest services by the *member* or *member’s firm* in the aggregate creates a significant *threat* to the member’s *independence* that cannot be reduced to an *acceptable level* by the application of the *safeguards* in the “General Requirements for Performing Nonattest Services” interpretation [1.295.040].

.03 In situations in which a member determines that *threats* are not at an *acceptable level*, *safeguards* in addition to those in the “General Requirements for Performing Nonattest Services” interpretation [1.295.040] should be applied to eliminate the *threats* or reduce them to an *acceptable level*. If no *safeguards* exist that will eliminate or reduce the *threats* to an *acceptable level*, *independence* would be *impaired*.

.04 For purposes of this interpretation, the member is not required to consider the possible *threats* to *independence* created due to the provision of nonattest services by other *network firms* within the *firm’s network*. [Prior reference: paragraph .05 of ET section 101]

Effective Date

.05 This interpretation is effective for engagements covering periods beginning on or after December 15, 2014.

1.295.030 Management Responsibilities

.01 If a member were to assume a management responsibility for an *attest client*, the management participation *threat* would be so significant that no *safeguards* could reduce the *threat* to an *acceptable level* and *independence* would be *impaired*. It is not possible to specify every activity that is a management responsibility. However, management responsibilities involve leading and directing an entity, including making significant decisions regarding the acquisition, deployment, and control of human, financial, physical, and intangible resources.

.02 Whether an activity is a management responsibility depends on the circumstances and requires the exercise of judgment. Examples of activities that would be considered management responsibilities and, as such, *impair independence* if performed for an *attest client*, include

- a. setting policy or strategic direction for the *attest client*.
- b. directing or accepting responsibility for actions of the *attest client’s* employees except to the extent permitted when using internal auditors to provide assistance for services performed under auditing or attestation standards.
- c. authorizing, executing, or consummating transactions or otherwise exercising authority on behalf of an *attest client* or having the authority to do so.

- d. preparing *source documents*, in electronic or other form, that evidence the occurrence of a transaction.
- e. having custody of an *attest client's* assets.
- f. deciding which recommendations of the member or other third parties to implement or prioritize.
- g. reporting to *those charged with governance* on behalf of management.
- h. serving as an *attest client's* stock transfer or escrow agent, registrar, general counsel or equivalent.
- i. accepting responsibility for the management of an *attest client's* project.
- j. accepting responsibility for the preparation and fair presentation of the *attest client's financial statements* in accordance with the applicable financial reporting framework.
- k. accepting responsibility for designing, implementing, or maintaining internal control.
- l. performing ongoing evaluations of the *attest client's* internal control as part of its monitoring activities.

[Prior reference: paragraph .05 of ET section 101]



A nonauthoritative question and answer regarding management responsibilities and controllership services is available. See Ethics Questions & Answers section 200.03, "Controllership Services."

1.295.040 General Requirements for Performing Nonattest Services

.01 When a member performs a nonattest service for an *attest client*, *threats* to the member's compliance with the "Independence Rule" [1.200.001] may exist. Unless an *interpretation* of the "Nonattest Services" subtopic [1.295] under the "Independence Rule" states otherwise, *threats* would be at an *acceptable level*, and *independence* would not be *impaired*, when all the following *safeguards* are met:

- a. The member determines that the *attest client* and its management agree to
 - i. assume all management responsibilities as described in the "Management Responsibilities" interpretation [1.295.030].
 - ii. oversee the service, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, and/or experience. The member should assess and be satisfied that such individual understands the

services to be performed sufficiently to oversee them. However, the individual is not required to possess the expertise to perform or re-perform the services.

- iii. evaluate the adequacy and results of the services performed.
 - iv. accept responsibility for the results of the services.
- b. The member does not assume management responsibilities (See the “Management Responsibilities” interpretation [1.295.030] of the “Independence Rule”) when providing nonattest services and the member is satisfied that the *attest client* and its management will
- i. be able to meet all of the criteria delineated in item *a*;
 - ii. make an informed judgment on the results of the member’s nonattest services; and
 - iii. accept responsibility for making the significant judgments and decisions that are the proper responsibility of management.
- If the *attest client* is unable or unwilling to assume these responsibilities (for example, the *attest client* cannot oversee the nonattest services provided or is unwilling to carry out such responsibilities due to lack of time or desire), the member’s performance of nonattest services would *impair independence*.
- c. Before performing nonattest services the member establishes and documents in writing his or her understanding with the *attest client* (board of directors, audit committee, or management, as appropriate in the circumstances) regarding
- i. objectives of the engagement,
 - ii. services to be performed,
 - iii. *attest client’s* acceptance of its responsibilities,
 - iv. member’s responsibilities, and
 - v. any limitations of the engagement.

.02 The *safeguards* in paragraph .01 and the “Documentation Requirements When Providing Nonattest Services” interpretation [1.295.050] of the “Independence Rule” [1.200.001] do not apply to certain routine activities performed by the member, such as providing advice and responding to the *attest client’s* questions as part of the *attest client*-member relationship. However, in providing such services, the member must not assume management responsibilities, as described in the “Management Responsibilities” interpretation [1.295.030] of the “Independence Rule.” [Prior reference: paragraph .05 of ET section 101]

[See Revision History Table.]



A nonauthoritative question and answer regarding routine activities is available. See Ethics Questions & Answers (Q&A) section 200.01, “Routine Activities.”

Nonauthoritative questions and answers regarding suitable skill, knowledge, and experience are available. See Q&A sections 210.02–.10 of Q&A section 210, *Nonattest Services — General Requirements*.

1.295.050 Documentation Requirements When Providing Nonattest Services

.01 Before performing nonattest services, the member should document in writing the member’s understanding established with the *attest client*, as described in paragraph .01c of the “General Requirements for Performing Nonattest Services” interpretation [1.295.040] of the “Independence Rule” [1.200.001].

.02 Failure to prepare the required documentation does not *impair independence* provided that the member did establish the understanding with the *attest client*. However, failure to prepare the required documentation would be considered a violation of the “Compliance With Standards Rule” [1.310.001].

.03 The documentation requirement does not apply to nonattest services performed prior to the *period of the professional engagement* for an *attest client*. However, for nonattest services provided during the period covered by the *financial statements*, the member should document in writing that the requirements of the “General Requirements for Performing Nonattest Services” interpretation [1.295.040] were met prior to the *period of the professional engagement*, including the requirement to establish an understanding with the *attest client*. [Prior reference: paragraph .05 of ET section 101]



Sample language for how to document your understanding with the attest client is available at <https://us.aicpa.org/interestareas/professionalethics/resources/tools/downloadabledocuments/nonattestservicesfaqs.pdf>.

1.295.105 Advisory Services

.01 Self-review or management participation *threats* to compliance with the “Independence Rule” [1.200.001] may exist when a member performs advisory services for an *attest client*.

.02 If the member’s services are only advisory in nature and the member applies the “General Requirements for Performing Nonattest Services” interpretation [1.295.040] of the “Independence Rule” [1.200.001], *threats* would be at an *acceptable level* and *independence* would not be *impaired*. For example, a member may

- a. provide advice, research materials, and recommendations to assist management in performing its functions and making decisions.
- b. attend board meetings as a nonvoting advisor.
- c. interpret *financial statements*, forecasts, or other analyses.
- d. provide management with advice regarding its potential plans, strategies, or relationships.

.03 However, *threats* to compliance with the “Independence Rule” [1.200.001] would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application of *safeguards* if a member assumes any management responsibilities, as described in the “Management Responsibilities” interpretation [1.295.030]. Accordingly, *independence* is *impaired*. [Prior reference: paragraph .05 of ET section 101 and paragraphs .015–.016 of ET section 191]

1.295.110 *Appraisal, Valuation, and Actuarial Services*

.01 Self-review or management participation *threats* to compliance with the “Independence Rule” [1.200.001] may exist when a member performs appraisal, valuation, or actuarial service for an *attest client*.

.02 *Threats* to compliance with the “Independence Rule” [1.200.001] would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application of *safeguards* if the member performs an appraisal, a valuation, or an actuarial service for an *attest client* when (a) the services involve a significant degree of subjectivity and (b) the results of the service, individually or when combined with other valuation, appraisal, or actuarial services, are material to the *attest client’s financial statements*. Accordingly, *independence* would be *impaired* under these circumstances..

.03 When performing appraisal, valuation, and actuarial services for an *attest client* that are permitted under this interpretation, all requirements of the “General Requirements for Performing Nonattest Services” interpretation [1.295.040] of the “Independence Rule” [1.200.001] should be met, including that all significant assumptions and matters of judgment are determined or approved by the *attest client*, and the *attest client* is in a position to have an informed judgment on, and accepts responsibility for, the results of the service.

Valuations Involving a Significant Degree of Subjectivity

.04 Examples of valuations that generally involve a significant degree of subjectivity include, ESOPs, business combinations, or appraisals of assets or liabilities. Accordingly, if these services produce results that are material to the *attest client’s financial statements*, *independence* would be *impaired*.

Actuarial Valuations of Pension or Postemployment Benefit Liabilities

.05 An actuarial valuation of an *attest client’s* pension or postemployment benefit liabilities generally does not involve a significant degree of subjectivity because reasonably consistent

results are produced when the same assumptions and information are used in performing the valuation. Therefore, *threats* would be at an *acceptable level* and *independence* would not be *impaired*.

Appraisal, Valuations, and Actuarial Services for Nonfinancial Statement Purposes

.06 *Threats* would be at an *acceptable level* if a member provided appraisal, valuation, or actuarial services solely for nonfinancial statement purposes. Some examples are appraisal, valuation, and actuarial services performed for tax planning or tax compliance, estate and gift taxation, and divorce proceedings. Accordingly, *independence* would not be *impaired*. [Prior reference: paragraph .05 of ET section 101]



A nonauthoritative question and answer regarding appraisal, valuation, and actuarial services is available. See Ethics Questions & Answers section 220.01, “Appraisal, Valuation, and Actuarial Service.”

1.295.113 *Assisting Attest Clients With Implementing Accounting Standards*

.01 When a member assists an *attest client* with planning and executing the implementation of an accounting standard, self-review or management participation *threats* to compliance with the “Independence Rule” [1.200.001] may exist.

.02 If a member applies the “General Requirements for Performing Nonattest Services” interpretation [1.295.040] of the “Independence Rule” [1.200.001], *threats* would be at an *acceptable level* and *independence* would not be *impaired* if, for example, a member does the following:

- a. Develops and provides training to *attest client* personnel on the effects of the accounting standard
- b. Researches, provides advice, makes recommendations, and assists management in identifying *financial statement* account balances, contracts, and transactions to be assessed under the accounting standard
- c. Provides advice and recommendations related to the application of the accounting standard, including
 - i. analyzing and advising management on the potential impact of the accounting standard on the entity’s accounting policies, procedures, and internal controls
 - ii. recommending possible revisions to existing policies, procedures, and internal controls

- iii. assisting the *attest client* with summarizing the *attest client's* analysis and policies related to the accounting positions under the accounting standard
- iv. preparing transition-related calculations to illustrate the impact of the application of the accounting standard for management's consideration and selection
- d. Provides observations and recommendations on management's existing overall project plan timeline or assists management in developing an overall project plan timeline to adopt the accounting standard
- e. Assists management in drafting implementation strategies or methods used to implement the accounting standard
- f. Assists the *attest client* in developing implementation templates or provides the *attest client* with firm-developed templates or tools, including those related to specific calculations under the accounting standard that meet the exception in paragraph .03a of the "Information Systems Services" interpretation [1.295.145] under the "Independence Rule," provided the attest client's management understands the nature of any underlying calculations and the impact the results will have on the financial statements
- g. Proposes standard journal entries or adjustments to existing journal entries necessary for adoption of the accounting standard, subject to *attest client* approval in accordance with paragraph .02e of the "Bookkeeping, Payroll, and Other Disbursements" interpretation [1.295.120]
- h. Provides recommendations related to existing or new information systems as a result of the accounting standard

.03 However, *threats* to compliance with the "Independence Rule" [1.200.001] would not be at an *acceptable level* and could not be reduced to an *acceptable level* by the application of *safeguards*, and *independence* would be *impaired* if, for example, a member does any of the following:

- a. Leads or supervises any *attest client* implementation team
- b. Makes decisions on which recommendations to prioritize or how to implement the accounting standard
- c. Sets any policy or procedures related to the accounting standard
- d. Accepts responsibility for designing new or redesigning existing internal controls over financial reporting
- e. Designs or develops new or redesigns existing financial information systems as described in the "Information System Services" interpretation [1.295.145] under the "Independence Rule"