.10 Examples of nonattest services and client understanding

Inquiry — The “General Requirements for Performing Nonattest Services” interpretation (ET sec. 1295.040) explains that the member needs to determine whether the attest client has “designated an individual with suitable skill, knowledge, and/or experience to oversee the service being provided.”

What are some examples of nonattest services and the level of understanding that this person should possess in order for the member to comply with the “General Requirements for Performing Nonattest Services” interpretation?

Response — Following are four examples along with the level of understanding required for each:

- **Assisting clients with implementing accounting standards** — When a member assists an attest client with implementing an accounting standard, the member should be satisfied that the individual designated by the attest client to oversee the service has suitable skill, knowledge, and/or experience.

  Some considerations that may help a member determine whether this individual has suitable skill, knowledge, and/or experience include whether the individual has experience applying accounting standards, knowledge of the company’s accounting processes and controls, and an understanding of the accounting standard being implemented.

  If the member believes the individual does not sufficiently understand the standard and the potential impact on the financial statements, including the related processes and controls, the member may provide training that will help the individual who will oversee the implementation service attain the appropriate understanding. Generally, this training should occur prior to the member beginning the service. After the training and before beginning the service, the member should reassess whether the individual is able to oversee the member’s service including determining the reasonableness of the member’s recommendations and evaluating the results of the implementation service.

  After the member is satisfied that the individual has suitable skill, knowledge, and/or experience, the member may assist with evaluating the effects of adopting a new standard. Following are examples from the interpretation of activities that the member might provide:
— Analysis of the potential impact of implementing the accounting standard
— Recommendations of possible revisions to existing policies, procedures, and internal controls
— Preparation of transition-related calculations to illustrate the impact of the application of the accounting standard for management’s consideration and selection.

[Added November 2022]

• **Bookkeeping** — When the member performs routine bookkeeping services for an attest client, the *member* should be satisfied that the individual designated by the *attest client* understands the basis for the proposed journal entries and how the posting of the journal entries will affect the *financial statements*. For recurring or standard journal entries (for example, depreciation), the individual designated by the *attest client* may require no explanation regarding the reason for the entry (for example, when the member has previously discussed these entries with the *attest client*), whereas for more complex journal entries (for example, deferred taxes), the member may need to have further discussions with the individual designated by the *attest client* discussing the underlying requirements and the basis for the entry and how the entry will affect the *financial statements*. For such services, the individual designated by the *attest client* must have the skills, knowledge, and experience to approve the proposed journal entries and accept responsibility for the company’s individual designated by the *attest client*. [Added prior to June 2005]

• **Tax compliance services** — For tax return preparation engagements, the individual designated by the *attest client* need not have an in-depth understanding of the applicable tax laws. However, the individual designated by the *attest client* should review the tax return, understand and approve key tax positions taken or disclosed in the return, and approve the filing of the return. The *member* also should be satisfied that the individual understands the company’s tax situation, has a general understanding of how the amounts on the tax return were determined, and make all decisions regarding significant tax positions taken in the return. [Added prior to June 2005]

• **Valuation services** — For more complex engagements, such as permitted valuation services, the *member* may need to explain to the individual designated by the attest client the valuation methodologies used as well as all significant assumptions. The individual then should be in a position to approve all significant assumptions and accept responsibility for the resulting valuation. [Added prior to June 2005]