

Questions & Answers

Interpretation 101-3

Performance of Nonattest Services - Information Technology Services

Periodically, the Professional Ethics Division submits questions on varying ethics topics that AICPA members have questioned. This set of questions relates specifically to the revised Interpretation 101-3 *Performance of Nonattest Services*, as described in the Code of Professional Conduct (AICPA Professional Standards).¹

In September 2003, the Professional Ethics Executive Committee (PEEC) issued revisions to Interpretation 101-3, updating the independence rules to clarify whether or not a member impairs his or her independence when providing nonattest services to attest clients. The revisions to Interpretation 101-3 clarify existing guidance in the areas of bookkeeping and internal audit services, place further restrictions on valuation, appraisal, and actuarial services and information systems design and implementation, and strengthen the general requirements² of the rule to require that a member document his or her understanding with the client regarding the services to be performed. The revised interpretation takes effect for any new engagements which began after December 31, 2003; however, the documentation requirement included in the revised interpretation has been deferred and will take effect for any nonattest services performed for an attest client after December 31, 2004. Earlier application is always encouraged. You can view the code and any other related information on the Institute's Web site at:

www.aicpa.org/members/div/ethics/index.htm

¹ This quiz is based on responses of the AICPA professional ethics division staff to members' inquiries and recent changes to the independence guidance of the professional ethics executive committee. It is not a pronouncement of that committee nor does it purport to set forth an official position of the AICPA. In addition, the questions and answers do not address the requirements of other regulatory bodies, such as the state boards of accountancy, the Securities and Exchange Commission and the General Accounting Office whose positions may differ from those of the AICPA.

² The General Requirements for Performing Nonattest Services are: 1. The member should not perform management functions or make management decisions for the attest client. However, the member may provide advice, research materials, and recommendations to assist the client's management in performing its functions and making decisions. 2. The client must agree to perform the following functions in connection with the engagement to perform nonattest services: *a.* Make all management decisions and perform all management functions; *b.* Designate a competent employee, preferably within senior management, to oversee the services; *c.* Evaluate the adequacy and results of the services performed; *d.* Accept responsibility for the results of the services; and *e.* Establish and maintain internal controls, including monitoring ongoing activities. The member should be satisfied that the client will be able to meet all of these criteria and make an informed judgment on the results of the member's nonattest services. In assessing the competency of the client's designated employee, the member should be satisfied that such individual understands the services to be performed sufficiently to oversee them. In cases where the client is unable or unwilling to assume these responsibilities (for example, the client does not have an individual with the necessary competence to oversee the nonattest services provided, or is unwilling to perform such functions due to lack of time or desire), the member's provision of these services would impair independence. 3. Before performing nonattest services, the member should establish and document in writing his or her understanding with the client (board of directors, audit committee, or management, as appropriate in the circumstances) regarding the following: *a.* Objectives of the engagement; *b.* Services to be performed; *c.* Client's acceptance of its responsibilities; *d.* Member's responsibilities; *e.* Any limitations of the engagement. The documentation requirement does not apply to certain routine activities performed by the member such as providing advice and responding to the client's technical questions as part of the normal client-member relationship.

IMPORTANT NOTE:

For the following questions, it is assumed that the member is in compliance with all applicable provisions of Interpretation 101-3 (for example, the general requirements) unless specifically identified otherwise and that the client in question is an attest client that is not required to file with the Security and Exchange Commission.

1. Why does Interpretation 101-3 indicate that independence would be impaired if a member is operated a client's local area network (LAN) system?

Operating a client's LAN is considered to be a management function that would violate the general requirements of Interpretation 101-3.

2. Would "outsourcing" the client's entire network operation and independently operating the client's local area network system impair independence?

Yes.

3. Would performing network maintenance (e.g., updating virus protection, applying updates and patches, or configuring user settings consistent with management's request) impair independence?

No. Performing network maintenance is not considered to be "operating" the client's network and therefore, would not impair independence provided a competent client employee is making all decisions and approving all activities.

4. Would assisting a client with a server project (e.g., install, migrate or update its network operating system, add equipment and users, or copy data to another computer) impair independence?

No, provided the member does not make other than insignificant modifications to the source code underlying the client's financial information system.

5. Would supervising client personnel in the daily operation of the client's information system impair independence?

Yes. In this case, the member would be performing management duties (supervising client employees in the performance of their normal recurring activities), which would impair independence.

6. Would assisting a client with procuring and securing Internet access impair independence?

No, provided a competent client employee makes all decisions as to the Internet provider and services to be provided.

7. What criteria should a member use to determine whether a client's information system is “unrelated to its financial statements or accounting records”?

Information systems that produce information that is reflected in the amounts and disclosures in the client's financial statements, used in determining such amounts and disclosures, or used in effecting internal control over financial reporting are considered to be *related* to the financial statements and accounting records. However, information systems that are used only in connection with controlling the efficiency and effectiveness of operations are considered to be *unrelated* to the financial statements and accounting records.

8. What factors should a member consider in determining whether the modifications made to source code underlying a client's financial information system are “other than insignificant”?

If the modifications have more than an insignificant effect on the functionality of the software, they should be considered to be “other than insignificant”.