



# Independence in Yellow Book Audits and Other Ethics Related Updates

December 15, 2022

# Today's Speakers



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# What We Will Cover

An overview of Yellow Book independence rules

- Based on 2018 edition of the Yellow Book

Information on applying Yellow Book independence concepts to a real-life scenario

Best practices and tips for preparing related independence documentation

A high-level update on other AICPA ethics activities

Resources (for participants to review later)

# Terminology and abbreviations

AICPA Code or ET section reference	AICPA Code of Professional Conduct	GAO	Government Accountability Office
BOD	Board of Directors	GAQC	Governmental Audit Quality Center
CEO	Chief Executive Officer	IT	Information Technology
CFO	Chief Financial Officer	NFP	Not for profit organization
CPE	Continuing professional education	SKE	Skills, Knowledge, and Experience
F/S	Financial Statements	TB	Trial Balance
<i>Government Auditing Standards</i>	Generally Accepted <i>Government Auditing Standards</i> or Yellow Book or GAGAS	TCWG	Those Charged With Governance
		YB	Yellow Book

# Why are we still talking about Yellow Book independence?



# An Overview of Yellow Book Independence Rules

# How to Access the Yellow Book

Access on the [GAO Yellow Book Web page](#); or you can access the [PDF](#) file directly

Paper editions are available for sale via the Government Publishing Office; [order information](#)



United States Government Accountability Office  
By the Comptroller General of the  
United States

April 2021

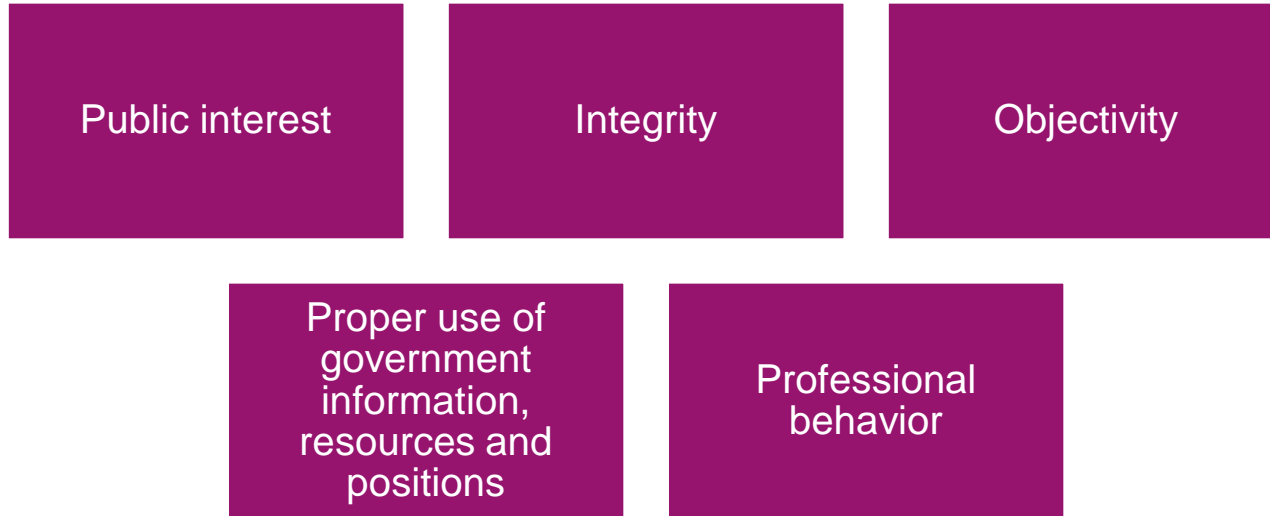
## GOVERNMENT AUDITING STANDARDS

2018 Revision

Technical Update April 2021

# Ethical principles

The ethical principles guiding the work of auditors under GAGAS are:





# Independence



General requirements and application guidance



Conceptual framework



Provision of nonaudit services



Documentation

# Yellow Book independence

Yellow Book uses a conceptual framework approach

GAO provides a list of specifically prohibited nonaudit services

- It does not provide a list of permitted nonaudit services or relationships

**CAUTION! All independence considerations, and documentation thereof, need to run through the Yellow Book independence conceptual framework!**

# Key Differences Between Yellow Book and AICPA Code

Slight differences in requirements for using respective conceptual frameworks

Permitted nonaudit services – AICPA code prohibits certain nonattest services (for example, hosting services) that the Yellow Book does not specifically reference

Yellow Book has additional requirements related to preparing accounting records and financial statements

Requirements related to relationships and circumstances other than nonattest services and Breach of the independence requirements



**Access [AICPA Ethics Comparison Tool](#)**

# Independence: categories of threats

- Management participation threat
- Self-review threat
- Bias threat
- Familiarity threat
- Undue influence threat
- Self-interest threat
- Structural threat

# Identifying threats

Facts and circumstances that create threats

- Start of new engagement
- Assignment of new personnel to an ongoing engagement
- Acceptance of a nonaudit service for an audited entity

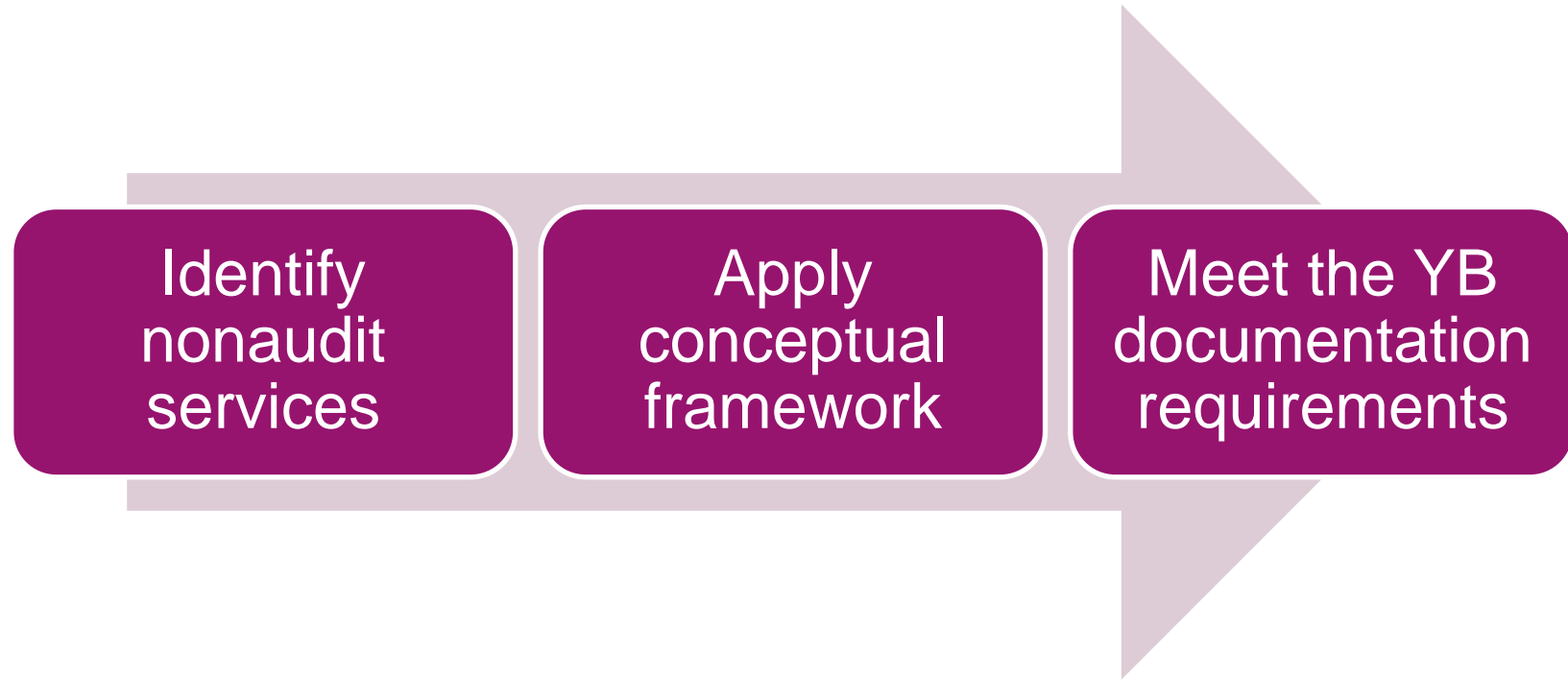
Threats could impair independence

- Do not necessarily result in an independence impairment

Safeguards could mitigate threats

- Eliminate or reduce to an acceptable level

## Steps to consider and document nonaudit services



# Identify nonaudit services

## Examples of nonaudit services

- Preparing accounting records and F/S
- Internal audit assistance
- Internal control monitoring
- IT systems services
- Valuation services
- Other services that are not part of conducting the audit or obtaining audit evidence



# Routine audit services and nonaudit services

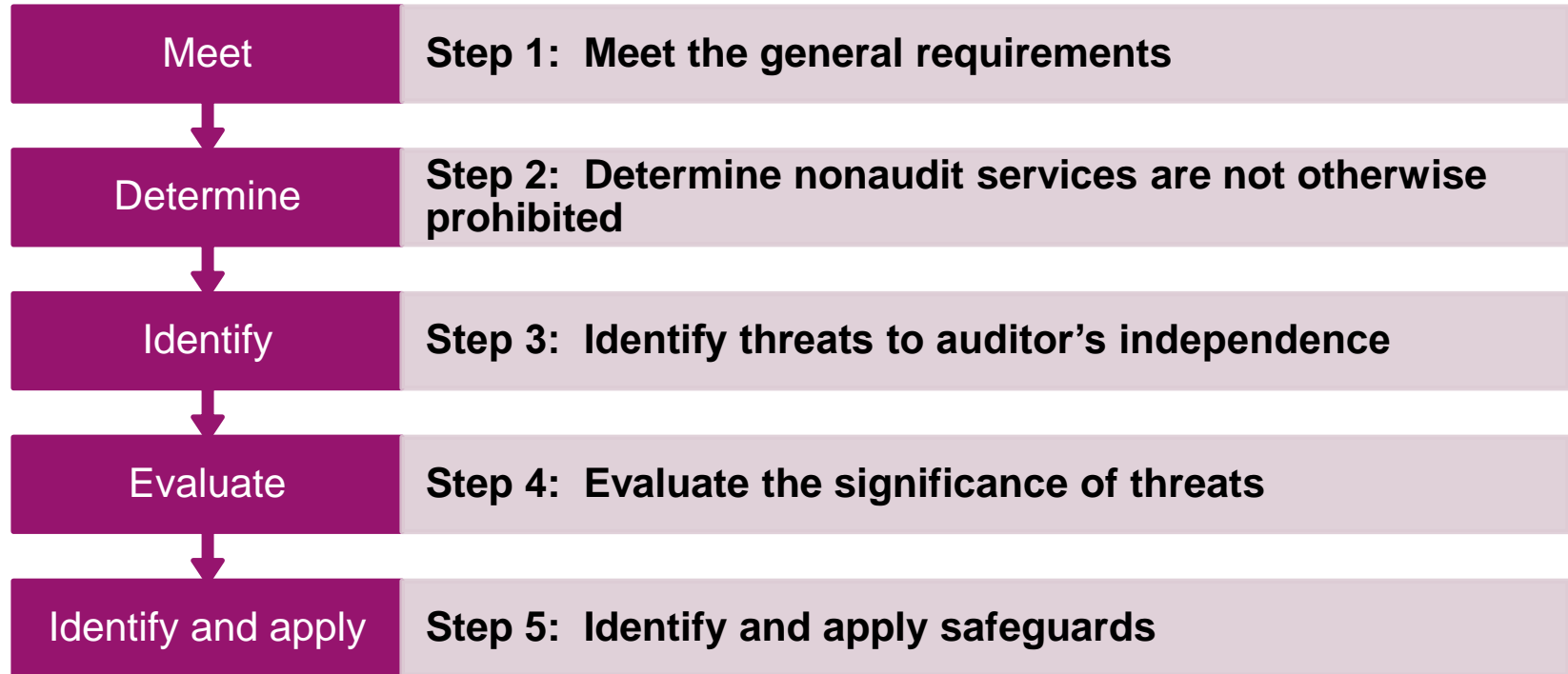
Routine audit services pertain directly to the audit and include:

- Providing advice related to an accounting matter
- Providing advice on routine business matters
- Educating the audited entity about matters within the technical expertise of the auditors
- Providing information to the audited entity that is readily available to the auditors, such as best practices and benchmarking studies

Other services not directly related to the audit are considered nonaudit services



# Applying the conceptual framework



# 1

## Meet the general requirements

Management must:

- Assume all management responsibilities
- Assign an individual with SKE to oversee performance of nonaudit service(s)
- Evaluate the adequacy and results of the nonaudit services performed
- Accept responsibility for the results of the nonaudit service(s)

The Yellow Book adds additional application guidance to determine whether an individual designated by management has SKE (see next slide).

## SKE application guidance – YB 3.79

Management is not required to possess expertise needed to perform or re-perform the nonaudit services.

Indicators of management's ability to effectively oversee the nonaudit service include management's ability to:

- determine the reasonableness of the results of the nonaudit service provided
- recognize a material error, omission, or misstatement in the results of the nonaudit services provided.

**YB 3.73: Auditors should determine that the audited entity has designated an individual who possesses suitable SKE and who understands the nonaudit services to be provided sufficiently to oversee them.**

# Red flags that management has not taken responsibility or does not have SKE

Auditor prepares a significant number of journal entries to adjust or correct records

Auditor gives the client a disclosure checklist to complete. Client returns it with significant portions incomplete and with many errors.

Auditor gives the client the F/S to review which are 60 pages (including note disclosures) and their review is completed in 30 minutes; they ask no questions



# 2

Determine the nonaudit services are not otherwise prohibited – assuming management responsibilities (YB 3.81)

**Setting  
policies/strategic  
direction**

**Directing employees  
and accepting  
responsibility for their  
actions**

**Service provided used  
as management's  
primary basis for  
making decisions  
significant to subject  
matter**

**Developing an audited  
entity's performance  
measurement system**

**Custody of assets**

**Determining which  
recommendations to  
implement**

**Reporting on behalf of  
management**

**Accepting  
responsibility for the  
management of an  
audited entity's project**

**Designing,  
implementing, or  
maintaining internal  
control**

**Serving as a voting  
member of an audited  
entity's management  
committee or board of  
directors**

# 2

## Determine the nonaudit services are not otherwise prohibited – prohibited nonaudit services

- Determining or changing journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval; authorizing or approving the entity's transactions; and preparing or making changes to source documents (YB 3.87)
- Certain internal audit services (YB 3.96)
- Providing or supervising ongoing monitoring procedures over an entity's system of internal control (YB 3.97)
- Certain IT services (YB 3.102)
- Appraisal, valuation, and actuarial services (YB 3.104)
- Certain other nonaudit services (YB 3.106)

See YB 3.85 - 3.106 for considerations of specific nonaudit services that impair independence.

Panel discussion – The prohibited services in the Yellow Book have not changed since 2018. Have there been any changes in services that are not permitted under AICPA standards?



# 3

## Identify threats to auditor's independence

Self-interest threat

**Self-review threat**

Bias threat

Familiarity threat

Undue influence threat

**Management participation threat**

Structural threat

Our focus today is on the threats highlighted in red



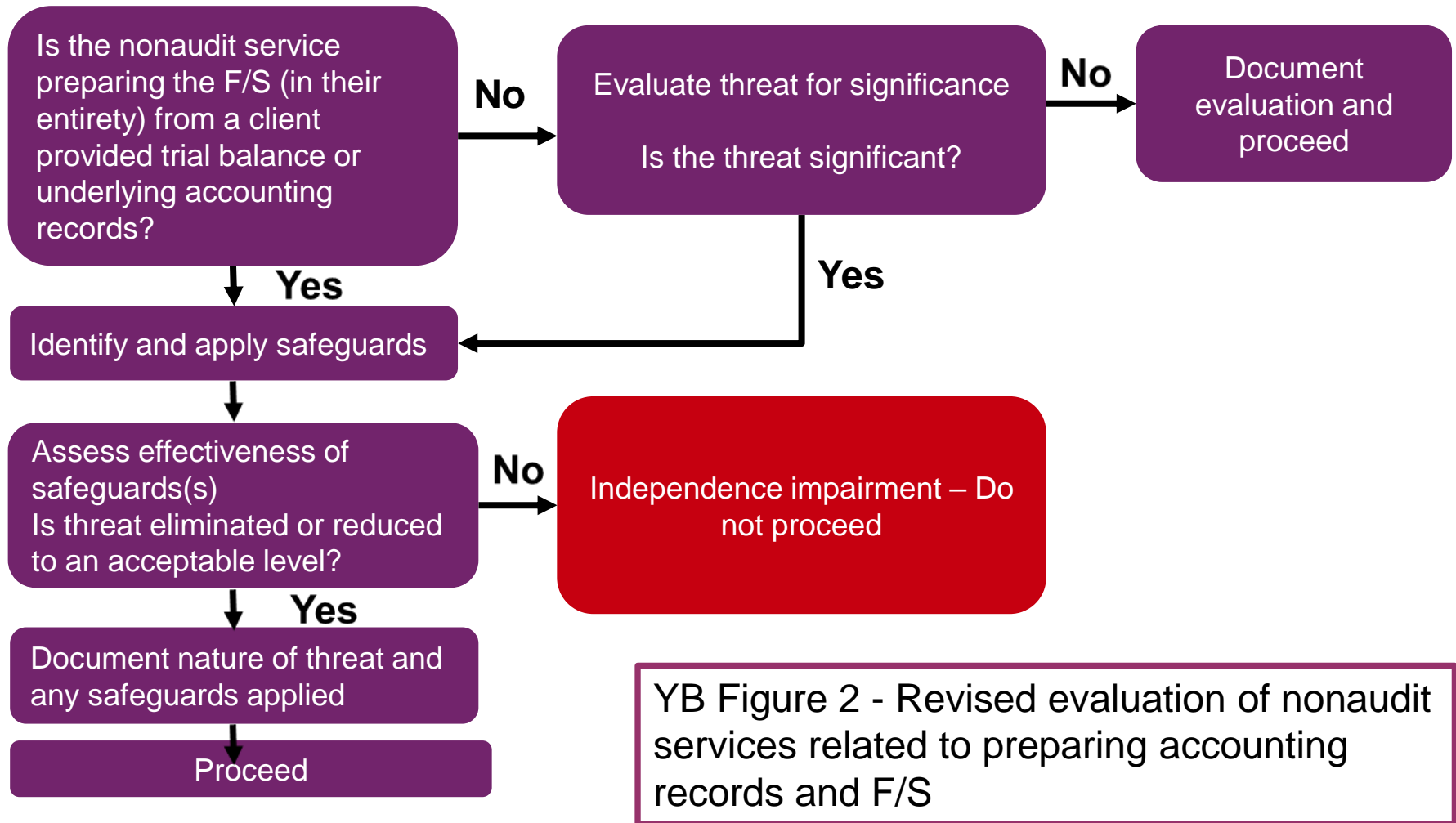


# Preparing accounting records and financial statements: The three categories of independence considerations

**Those that  
automatically  
impair  
independence**

**Those that are  
identified as  
automatic  
significant  
threats (i.e.,  
preparing F/S in  
their entirety)**

**Those that  
require auditor to  
evaluate threats  
for significance,  
using  
professional  
judgment, and  
prepare related  
documentation**



# 4

Evaluate the significance of threats – factors in evaluating significance of preparing accounting records and F/S

Extent outcome could have material effect on F/S

Degree of subjectivity in determining amounts or treatment

Extent of entity's involvement in determining significant matters of judgment

**DON'T FORGET! Under the Yellow Book, you are required to document your evaluation of the significance of a threat created by preparing accounting records and F/S.**

# 5

## Identify and apply safeguards

### What is a safeguard?

Safeguards are actions or other measures, individually or in combination, that auditors take that effectively eliminate threats to independence or reduce them to an acceptable level.

*There may be circumstances where safeguards will not be sufficient to mitigate the threat to an acceptable level. In those circumstances, the auditor cannot perform the nonaudit service(s) and remain independent.*

## Safeguard emphasis points

Safeguards vary  
depending on facts  
and circumstances

Not enough to just  
select safeguard(s)  
to apply

Need to ensure  
safeguard(s) are  
effective against the  
threat and are  
implemented

Client SKE is not a  
safeguard!

## Example safeguards related to nonaudit services



**Not including individuals who provided the nonaudit service on the audit engagement (i.e. separate engagement teams);**



**Having another auditor, not associated with the engagement, perform a concurring review of the audit engagement; or**



**Having another audit organization re-perform the nonaudit service to the extent necessary to enable that other audit organization to take responsibility for the service**

**If you do not have the ability to apply safeguards when required, you should:**

- 1. Decline to perform audit;**
- 2. Decline to perform nonaudit service; or**
- 3. Alter the scope of the nonaudit service.**

Potential safeguards specific to certain threats	Self- review	Management participation
Separate nonaudit service and audit engagement teams	X	
Engagement quality control reviews	X	
Communication with TCWG related to independence		X
Educate client on independence/nonaudit services	X	X
Review of deliverables by audit team prior to providing to the client	X	X
Enhanced documentation of client review/approvals		X
Including disclaimers on deliverables		X
Status updates with audit team	X	X
Firm training and communications	X	X

**Note:** These example safeguards are not meant to be exclusive and these may not be appropriate depending on the facts and circumstances. In applying the conceptual framework, auditors assess the effectiveness of safeguards by determining whether threats are eliminated or reduced to an acceptable level.

Panel discussion – I am a sole-proprietor. Do you think I can overcome a significant self-review threat without having an outside firm review the nonaudit service(s)?






# Where are the pitfalls in YB independence considerations?

- Failure to identify nonaudit services
- Failure to recognize lack of SKE at audited entity or impact in changes of personnel
- Failure to recognize when assistance with the implementation of a new standard crosses the line of assuming management responsibilities
- [AICPA ethics podcast on assisting clients with implementing accounting standards](#)
- See Q&A Section 222, Nonattest Services — Assisting Attest Clients With Implementing Accounting Standards  
<https://pub.aicpa.org/codeofconduct/Ethics.aspx#>
- Failure to consider relevant factors impacting threat significance such as:
  - Materiality of the subject matter on the audit
  - Degree of subjectivity involved
  - Extent of audited entity's involvement in determining significant matters of judgment
- Failure to put into place effective safeguards
- Failure to meet documentation requirements
- Failure to consider threats in the aggregate
- Failure to prepare appropriate documentation


# Applying Yellow Book Independence Concepts to Real-Life Scenario

## Case study information – ABC Not-for-Profit


Superior CPA firm has performed financial statement audits for ABC for the last 5 years.




The CFO, Jane Miller, has been with ABC for over 15 years including the last 5 years as the CFO. Before that Jane was a controller for XYZ, Inc.



Jane reports directly to CEO David Smith



There is a 10-member BOD but no formal audit committee. None of the BOD members have financial or accounting expertise



A significant portion of ABC's revenue comes from contributions

## Identify nonaudit services

Johnny Lane, audit manager for Superior CPAs identifies the following nonaudit services based on discussion with Jane Miller, CFO :

- ☐ Preparing financial statements in their entirety (drafting F/S from management prepared TB including the notes to the F/S)
- ☐ Reconciliation of net asset classification
- ☐ Assisting with the identification of accounts payable

**Let's walk through Johnny's consideration of these nonaudit services**

# Management responsibilities and prohibited services?

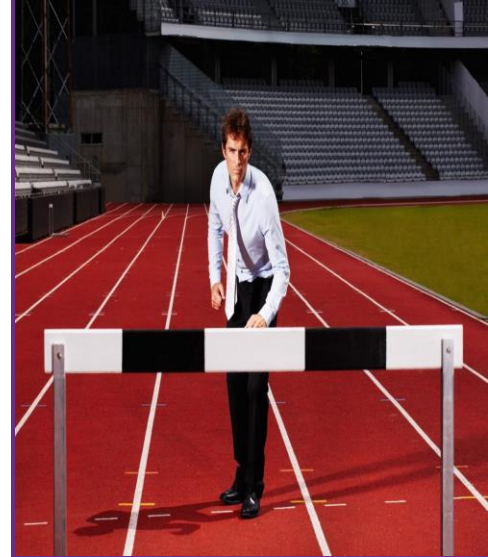
Johnny determines that none of the nonaudit services that Superior CPAs will perform will involve assuming management responsibilities (see paragraphs 3.73 – 3.82 of the YB)

Johnny then reviews paragraphs 3.85 - 3.106 of the YB and determines that none of the nonaudit services to be performed by Superior CPAs are prohibited

Johnny documents both of the above conclusions

**If Johnny's determinations had been that Superior CPAs would have been assuming management responsibilities OR that one of the nonaudit services was a prohibited service, Superior CPAs' independence would have been impaired!**

## Hurdle 1



# SKE evaluation

The next question Johnny needs to answer is:

- Has ABC designated an individual possessing suitable SKE and, if so, does that person understand the services to be provided sufficiently to oversee them?

Based on Johnny's experience in working with Jane, and upon further review of her background, Johnny concludes that Jane meets this hurdle test.

He rolls his sleeves up and begins to prepare his documentation to support this conclusion (next slide).

**If the answer to this question had been no, Superior CPAs' independence would have been impaired!**

## Hurdle 2



## Johnny's evaluation of SKE

Nonaudit service	Identify the individual(s) designated by the entity to oversee the nonaudit service	Assessment of SKE
Preparing the F/S in their entirety; reconciling net asset classification; and assisting with identification of accounts payable	Jane Miller, CFO	Jane has a B.A. in accounting. She has 5 years experience in nonprofit finance at ABC nonprofit and obtains adequate CPE in nonprofit accounting each year. In addition, she regularly displays her knowledge on day-to-day activities, and we have observed her ability to effectively oversee the preparation of the F/S in prior years.

## Gaining understanding with management and documenting the understanding

Johnny meets with Jane Miller (CFO) and David Smith (CEO) to discuss the nonaudit services to ensure there is an appropriate understanding about the following:

- The objectives of the nonaudit services
- A description of the services to be provided
- Any limitations on the provision of nonaudit services including, among other things, that Superior CPAs will not make management decisions and ABC will provide access to all books, records and related individuals

### Hurdle 3





## Gaining understanding with management and documenting the understanding (continued)

### Hurdle 3

During Johnny's discussion with Jane and David, he confirms that ABC agrees to the following responsibilities:

- ABC will assume all management responsibilities
- ABC will have Jane oversee the nonaudit services (as noted previously, she has appropriate SKE to take on this duty)
- ABC will evaluate the adequacy and results of the nonaudit services
- ABC will accept responsibility for the results of the nonaudit services

Johnny documents these items and those on the previous slide

**If ABC would not agree to accept any of these responsibilities, Superior CPAs' independence would have been impaired!**

# Identifying and evaluating threats

From reading the Yellow Book, Johnny understands that preparing the F/S in their entirety **always** results in a significant threat

Johnny also proceeds to identify the threats for the other two nonaudit services the firm will be performing (relating to preparing F/S and accounting records) and to document the significance of those threats

Johnny then prepares documentation evidencing this identification and evaluation process (see next two slides for Johnny's documentation)

# Example documentation for threat identification

Nonaudit service	Identify the nature of the threat
Preparing F/S in their entirety (including preparation of all footnotes)	An auditor from the engagement team will prepare the F/S from ABC's trial balance using Superior CPAs' trial balance and report generator software. Due to the risk of the firm potentially making management decisions and preparing information that we will audit, performing this service creates <b>management participation</b> and <b>self-review threats</b> .
Reconciling net asset classifications	An auditor from the engagement team will prepare a net asset classification reconciliation creating <b>management participation</b> and <b>self-review threats (same reasons as above)</b> .
Assisting with identification of accounts payable	An auditor from the engagement team will assist by identifying accounts payables creating <b>management participation</b> and <b>self-review threats (same reasons as above)</b> .

Identify the nature of the threats to Superior CPAs' independence


# Threat evaluation documentation

Nonaudit service	Nature of the threat	Document the evaluation of the significance of threats.
Preparing F/S in their entirety	Management participation and self-review threats	Because the firm is preparing the F/S in their entirety, threats are automatically considered <b><u>significant</u></b> per paragraph 3.88 of the Yellow Book.
Reconciling net asset classification	Same as above	Considering the subjective nature and complexity in reaching the determinations of net asset classifications and the cumulative threat when combined with the other nonaudit services, the management participation and self review threats are deemed to be <b><u>significant</u></b> .
Assisting with identification of accounts payable	Same as above	Due to the complexities surrounding determining certain payables and the cumulative threat when combined with the other nonaudit services, the management participation and self review threats are deemed to be <b><u>significant</u></b> .

# Safeguard identification and evaluation documentation

Nonaudit service	Nature of the threat	<i>Identify the safeguards(s) to be applied and document how the application effectively eliminates or reduces the threat(s) to an acceptable level</i>
Preparing F/S in their entirety	Management participation and self-review threats	<p>To address the self-review threat, Nancy Clancy, an audit manager with Superior CPAs that is not assigned to ABC's audit engagement will review the F/S. Nancy is experienced in nonprofit accounting and auditing. Having another person, outside of the engagement team, participate in this manner will effectively mitigate the self-review threat.</p> <p>To address the management participation threat, Johnny will provide a draft of the F/S to Jane for her review and approval. Jane has asked for 1-week to review the F/S. Johnny will meet with Jane after that review is complete to verify that Jane performed a thorough review (e.g., by reviewing any checklists used by Jane, discussing questions and comments that Jane has on the F/S and related disclosures, etc.). Having this management involvement will effectively mitigate the management participation threat. Johnny will have Jane evidence her review and approval in writing (email or otherwise) and will retain documentation to support her review procedures and her approval.</p>

# Safeguard identification and evaluation documentation

Nonaudit service	Nature of the threat	<i>Identify the safeguards(s) to be applied and document how the application effectively eliminates or reduces the threat(s) to an acceptable level</i>
Reconciling net asset classification  Assisting in identifying accounts payable	Management participation and self-review threats	

***If no safeguards are available to be applied or the safeguards do not mitigate the threat(s), Superior CPAs' independence will be impaired!***

Panel discussion – If the nonaudit services we provide for our client do not relate to preparing accounting records and financial statements, what are our documentation requirements related to the evaluation of the significance of threats and the application of safeguards?



# Best Practices and Tips



# GAQC Practice Aid

**Coming soon!** *GAQC Practice Aid: Evaluating and Documenting Independence Threats of Nonaudit Services in Government Auditing Standards Engagements*

- Watch for *GAQC Alert* announcing its release before year end; it will be posted at [www.aicpa.org/GAQC](http://www.aicpa.org/GAQC)

The Practice Aid:

- Provides nonauthoritative guidance and illustrates one methodology that could be used
- Includes a practice aid that can be used to document and related instructions
- Focuses on documentation of threats related to nonaudit services

Yellow Book requires conceptual framework to be used for evaluation of all threats to independence thus additional documentation may need to be prepared for other independence threats unrelated to nonaudit services

Excerpts of final draft Practice Aid included in next slides



**GAQC Practice Aid: Evaluating and Documenting  
Independence Threats of Nonaudit Services in  
Government Auditing Standards Engagements**

This nonauthoritative AICPA Governmental Audit Quality Center practice aid provides an illustration of one methodology that could be used by an auditor to evaluate and document threats to independence and the application of safeguards for nonaudit services in engagements performed in accordance with the 2018 revision to *Government Auditing Standards*.

## Section I: Documentation supporting that certain preconditions related to the performance of nonaudit services have been met.

**Note:** This section contains the documentation supporting that nonaudit services are not prohibited in the Yellow Book, that the auditor will not be assuming management responsibilities, and conclusions about audited entity skills, knowledge, or experience. It is completed for each nonaudit service. [Section I](#), of Appendix A: [Auditor Instructions and Background Information Relevant to Each Section Column in the Practice Aid](#), provides additional detail for completing this section.

(1)	(2)	(3)	(4)	(5)
Detailed description of the nature and extent of each nonaudit service to be provided.	Is there a specific prohibition against the nonaudit service? If "Yes," STOP; independence will be impaired. If "No," proceed to column (3).	Will the nonaudit service involve assuming management responsibilities? If "Yes," STOP; independence will be impaired. If "No," proceed to column (4).	Has the audited entity designated an individual(s) who possesses suitable SKE and does the individual(s) understand the services to be provided sufficiently to oversee them? If "Yes," proceed to column (5). If "No," STOP; independence will be impaired. This auditor determination is based on the auditor's consideration of SKE documented in <a href="#">section II</a> .	Does the nonaudit service involve preparing accounting records or financial statements? If "Yes," complete <a href="#">section IV</a> . If "No," complete <a href="#">section V</a> .

**Section II: Documentation of the SKE of the individual(s) designated by the audited entity to oversee nonaudit services and that the individual understands the services to be provided sufficiently to oversee them.**

**Note:** This section is to be completed for each nonaudit service to be provided, regardless of whether a significant threat to independence is identified. After completing section II for each nonaudit service, a conclusion about whether the individual(s) possesses suitable SKE, and that the individual(s) understands the services to be provided sufficiently to oversee them is documented in [section I, column \(4\)](#). [Section II of Appendix A](#) provides additional detail for completing this section.

(1)	(6)	(7)
<p><i>Nonaudit services to be provided, from <a href="#">section I, column (1)</a>.</i></p>	<p><i>Identify the individual(s) designated by the audited entity to oversee each nonaudit service.</i></p>	<p><i>Document the SKE of the designated individual(s) and the evaluation of consideration of the individual's ability to effectively oversee the nonaudit service. If no individual at the audited entity has suitable SKE to oversee the nonaudit service(s), indicate below and STOP; independence will be impaired. If the individual(s) at the audited entity has suitable SKE, is willing to oversee, and understands the services provided sufficiently to oversee them, proceed to <a href="#">section III</a>.</i></p>

**Section III: Documentation of the audited entity's agreement that management performs certain functions in connection with the nonaudit services and that the required understanding with management has been established.**

**Note:** This section is only completed provided that the auditor has successfully met the precondition criteria in columns (2) – (4) of [section I](#). If the auditor answered “Yes” in section I to either of the questions in columns (2) and (3), or “No” to the question in column (4), independence will be impaired. [Section III of Appendix A](#) provides additional detail for completing this section.

(1)	(8)	(9)
<p><i>Nonaudit services to be provided, from <a href="#">section I, column (1)</a>.</i></p>	<p><i>Document evidence that the audited entity agrees to each of the management functions described in (a)-(d) below, or provide a reference to separate documentation (for example, an engagement letter). <b>If management does not agree to accept any of the following responsibilities, STOP; independence will be impaired.</b></i></p> <ul style="list-style-type: none"> <li><i>a. The audited entity management agrees to assume all management responsibilities.</i></li> <li><i>b. The audited entity management agrees to oversee the services, by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience.</i></li> <li><i>c. The audited entity management agrees to evaluate the adequacy and results of the nonaudit services performed.</i></li> <li><i>d. The audited entity management agrees to accept responsibility for the results of the nonaudit services.</i></li> </ul>	<p><i>Provide a reference to the documentation of the understanding established with audited entity management or those charged with governance, as appropriate, regarding (a) – (e) below:</i></p> <ul style="list-style-type: none"> <li><i>a. Objectives of the nonaudit service;</i></li> <li><i>b. Services to be provided;</i></li> <li><i>c. Audited entity's acceptance of its responsibilities as discussed in column (8);</i></li> <li><i>d. The auditor's responsibilities; and</i></li> <li><i>e. Any limitations on the provision of nonaudit services</i></li> </ul>

## Section IV: Documentation of the evaluation of threats to independence and the application of safeguards for nonaudit services involving preparing accounting records and financial statements.

**Note:** This section is completed when the nonaudit services involve (1) preparing financial statements in their entirety (paragraph 3.88 of the Yellow Book), and (2) other services related to preparing accounting records and financial statements (paragraph 3.89 of the Yellow Book) where an evaluation and documentation of the significance of threats to independence created by providing the services is required by paragraph 3.90 of the Yellow Book. Complete [section V](#) to document any “other nonaudit services” that are unrelated to preparing accounting records and financial statements. [Section IV of Appendix A](#) provides additional detail for completing this section.

(1)	(10)	(11)	(12)	(13)
<p><i>Include nonaudit services from <a href="#">section I</a>, column (1) that are identified with a “Yes” in <a href="#">column (5)</a> (that is, those services involving preparing accounting records and financial statements).</i></p>	<p><i>Identify the nature of the threats for each nonaudit service involving preparing accounting records and financial statements. Include the specific facts and circumstances of the threats and identify the broad categories of threats such as self-review and management participation.</i></p>	<p><i>Document the evaluation of the significance of threats created by preparing accounting records and financial statements considering both qualitative and quantitative factors. Note: Paragraph 3.89 of the YB indicates preparing financial statements in their entirety always creates a significant threat.</i></p>	<p><i>Are threats at an acceptable level? If “No,” proceed to column (13). If “Yes,” indicate N/A in column (13) and proceed to <a href="#">section V</a>, if applicable, or <a href="#">section VI</a>.</i></p>	<p><i>Identify the safeguard(s) to be applied when threats are not at an acceptable level and document how the application of the safeguard(s) eliminates or reduces the threats to an acceptable level. If no safeguards are available to be applied or the safeguards do not mitigate the threat(s), STOP; independence will be impaired.</i></p>

**Section V: Documentation of the evaluation of threats to independence and the application of safeguards for other nonaudit services that do NOT involve preparing accounting records and financial statements.**

**Note:** This section is completed for other nonaudit services that are unrelated to preparing accounting records and financial statements (referred to herein as “other nonaudit services”). Paragraph 3.104(a) of the Yellow Book only requires auditors to document threats to independence related to “other nonaudit services” that require the application of safeguards, along with safeguards applied. However, this practice aid recommends that [section V](#) be completed for all “other nonaudit services” as doing so will assist auditors as they evaluate threats in the aggregate ([see section VI](#)) and serve as evidence that all nonaudit services have been considered. Complete [section IV](#) to document nonaudit services that involve preparing accounting records and financial statements. [Section V of Appendix A](#) provides additional detail for completing this section.

(1)	(14)	(15)	(16)
<p>Include nonaudit services from <a href="#">section I, column (1)</a> that are identified with a “No” in <a href="#">column (5)</a> (that is, those services NOT involving the preparation of accounting records and financial statements).</p>	<p>Identify the nature of the threats for each nonaudit service NOT involving the preparation of accounting records and financial statements. Include the specific facts and circumstances of the threats and the broad categories of threats such as self-review and management participation</p>	<p>Are threats at an acceptable level? If “No,” proceed to column (16). If “Yes,” indicate “N/A” in column (16) and proceed to <a href="#">section VI</a>.</p>	<p>Identify the safeguard(s) to be applied when threats are not at an acceptable level and document how the application of the safeguard(s) eliminates or reduces the threats to an acceptable level. If no safeguards are available to be applied or the safeguards do not mitigate the threats, STOP; independence will be impaired.</p>



## Section VI: Documentation of the evaluation of threats to independence for nonaudit services in the aggregate:

**Note:** Paragraph 3.27 of the Yellow Book states that auditors should apply the conceptual framework at the audit organization, engagement team, and individual auditor levels to evaluate the significance of threats identified, both individually and in the aggregate. Further, paragraph 3.45 of the Yellow Book states that threats to independence are evaluated both individually and, in the aggregate, as threats can have a cumulative effect on auditors' independence. This section is completed to document the evaluation of threats in the aggregate including threats associated with nonaudit services, along with any other threats to independence resulting from other circumstances or relationships. Similar to [section V](#), while the Yellow Book requires auditors to document threats to independence that require the application of safeguards, along with safeguards applied, this practice aid recommends documentation of the conclusions in this area even when aggregate threats are at an acceptable level to evidence aggregate conclusions reached in all situations. [Section VI of Appendix A](#) provides additional detail for completing this section.

(17)

*Are the threats in the aggregate at an acceptable level considering the cumulative effect of the threats? (If "Yes," indicate N/A in column (18) and proceed to [section VII](#). If "No," proceed to column (18).)*

(18)

*Identify the safeguard(s) to be applied when threats in the aggregate are not at an acceptable level and document how the application of the safeguard(s) eliminates or reduces the threats to an acceptable level. If no safeguards are available to be applied or the safeguards do not mitigate the threats, STOP; independence will be impaired.*

## **Section VII: Documentation of conclusions related to independence for nonaudit services**

We have evaluated the nonaudit services to be provided to the audited entity, both individually and in the aggregate.

We have obtained agreement from audited entity management that audited entity management performs the following functions in connection with the nonaudit services:

- a. Assumes all management responsibilities;
- b. Oversees the services, by designating an individual, preferably within senior management, who possesses suitable SKE;
- c. Evaluates the adequacy and results of the services provided; and
- d. Accepts responsibility for the results of the services.

We have determined that the nonaudit services:

- Are not prohibited services;
- Do not involve assuming management responsibilities; and
- Will be overseen by an individual(s) who possesses suitable SKE and understands the nonaudit services to be provided sufficiently to oversee them.

We have evaluated the significance of threats for all nonaudit services. For all significant threats, we applied safeguards to eliminate the threats or reduce them to an acceptable level.

Specifically, we (mark the following statements that are applicable or mark "N/A")

\_\_\_ documented in [section IV](#) our evaluation of threats associated with preparing financial statements in their entirety as significant and applied safeguards to eliminate the threats or reduce them to an acceptable level.

\_\_\_ documented in [section IV](#) our evaluation of threats for nonaudit services involving preparing accounting records and financial statements, other than those involving preparing financial statements in their entirety. Where applicable, we applied safeguards to eliminate the threats or reduce them to an acceptable level.

\_\_\_ documented in [section V](#) our evaluation of threats for other nonaudit services performed. Where applicable, we applied safeguards to eliminate the threats or reduce them to an acceptable level.

We have evaluated the significance of threats for all nonaudit services in the aggregate. Where applicable, we applied safeguards to eliminate the threats in the aggregate or reduce them to an acceptable level.



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**Section VII: Documentation of conclusions related to independence for nonaudit services**

Based on the foregoing, we conclude that we may provide the nonaudit services described herein and remain independent with respect to the audited entity.

Prepared by: \_\_\_\_\_ Date: \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date: \_\_\_\_\_

**Documentation of threat reevaluations. (See paragraph 3.28 of the Yellow Book.)** Auditors can use the space below to reevaluate threats to independence, including any safeguards applied and how the safeguards sufficiently mitigate the threat, whenever the auditor becomes aware of new information or facts and circumstances that could affect whether a threat has been eliminated or reduced to an acceptable level.

If auditors initially identify a threat to independence after the audit report is issued, auditors should reevaluate the threat's effect on the engagement and on compliance with *Government Auditing Standards*. Paragraph 3.34 of the Yellow Book includes the detailed requirements when encountering this situation.

Prepared by: \_\_\_\_\_ Date: \_\_\_\_\_

Reviewed by: \_\_\_\_\_ Date: \_\_\_\_\_

# Last Words on Preparing Nonaudit Services Documentation

Threats to independence are not at an acceptable level if:

- a. Compromises auditor's professional judgment
- b. Third party could conclude that auditor's integrity, objectivity, or professional skepticism has been compromised

Documentation, documentation, documentation!

When in doubt....take the conservative route!

# Update on Other AICPA Ethics Activities Relevant to Governmental Audits

# Recently Effective AICPA Guidance

## Staff Augmentation Arrangements

Issued February 2021

Effective November 30, 2021

## State and Local Government Client Affiliates

Revised June 2019

Effective for years beginning after  
December 15, 2021.

# Staff Augmentation Arrangements

## [ET Sec. 1.275.007]

A staff augmentation arrangement exists when

- a firm lends a member of its personnel to an attest client, and
- the attest client is responsible for the direction and supervision of the activities performed by the individual.

The firm bills the attest client for the services/activities performed.

# Staff Augmentation

ALL of the following safeguards must be met:

- Unexpected and creates a significant hardship
- Not expected to reoccur
- 30 days or less
- Role: Can't participate in or influence engagement
- Limited to nonattest services
- Oversight by someone with SKE

The **attest client** is responsible for the direction and supervision of the activities performed!

# State and Local Government Client Affiliates

## [ET Sec. 1.224.020]

Financial interests in, and other relationships with, affiliates of a financial statement attest client may create threats to independence

The “Independence Rule” and related interpretations apply to affiliates

Other circumstances or relationships may create threats to independence requiring application of the “Conceptual Framework for Independence”

AICPA has issued implementation tools and resources (see resources section)

# Effective Soon - Information Systems Services

[\[ET Sec. 1.295.145\]](#)

Revised June 2019

Effective January 1, 2023

Early implementation permitted





# Recently Adopted AICPA Guidance

Assisting Attest Clients With Implementing Accounting Standards (see next slide)

[ET Sec. 1.295.113]

Added May 2022

Unpaid Fees

[ET Sec. 1.230.010]

Revised May 2022

Loans; Loans and Leases With Lending Institutions

[ET Sec. 1.260.010] [ET Sec. 1.260.020]

Revised May 2022

**Effective  
December 31,  
2022**

**Early  
implementation  
permitted**

## Assisting Attest Clients with Implementing Accounting Standards ([ET Sec. 1.295.113](#))

**If I'm helping my client implement a new accounting standard, what is the level of understanding they are required to have to properly oversee the nonattest service?**

The individual needs to have suitable SKE; Examples:

- Experience applying accounting standards,
- Knowledge of the company's accounting processes and controls, or
- An understanding of the accounting standard being implemented.

The member may help the individual gain knowledge by providing training and research.

# Recently Adopted: Compliance Audits: Changes to the Code

New definitions: 1) Compliance audit; and 2) Compliance audit client

Revision to financial statement attest client – **removes** the requirements to:

- 1) Apply the “Independence Rule” ([ET sec. 1.200.001](#)) with respect to any entity that meets both of the following
  - a) Not subject to compliance audit procedures and
  - b) Includes amounts in the schedule or statement that are trivial and clearly inconsequential; and
- 2) Apply the Affiliates rule ([ET sec 1.224](#)) with respect to a compliance audit client

Adopted November 10<sup>th</sup> - Effective for compliance audits commencing on or after June 15, 2023, with early implementation allowed

# Resources

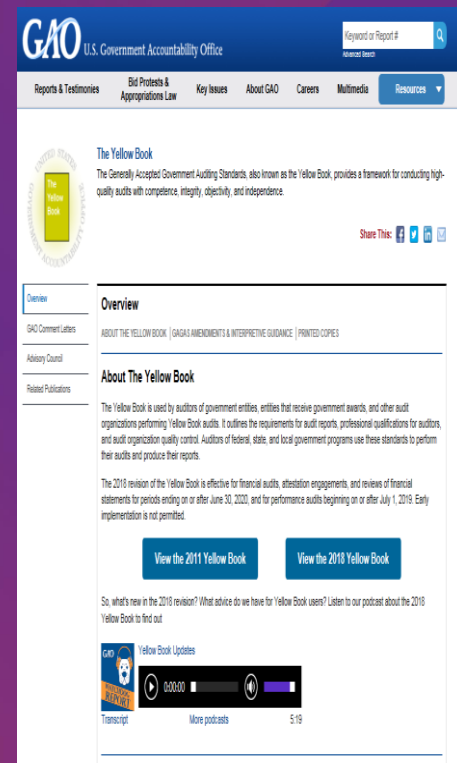
# GAO Resources

The [GAO Yellow Book Web page](#) includes:

- The Yellow Book
- Podcast on the Yellow Book

## GAO YB Technical Assistance Hotline

- Call (202) 512-9535; or
- E-mail [yellowbook@gao.gov](mailto:yellowbook@gao.gov).



# GAQC Web Site ([www.aicpa.org/GAQC](http://www.aicpa.org/GAQC))

Key areas to check out and/or bookmark:

- AICPA Audit Guide, [Government Auditing Standards and Single Audits](#)
- [GAQC COVID-19 Resources](#)
- [Archived GAQC Alerts](#)
- [Archived GAQC Web events](#), including Single Audit Fundamentals series and other webcasts
- [Illustrative Auditor's Reports](#)
- [Single Audit Resources](#)



# AICPA Ethics Resources

## Ethics Online Library

- AICPA Code of Professional Conduct
- Plain English Guide to Independence
- Q&As

Ethically speaking podcast series -  
<https://ethicallyspeaking.libsyn.com/>

## Ethics Resources Page

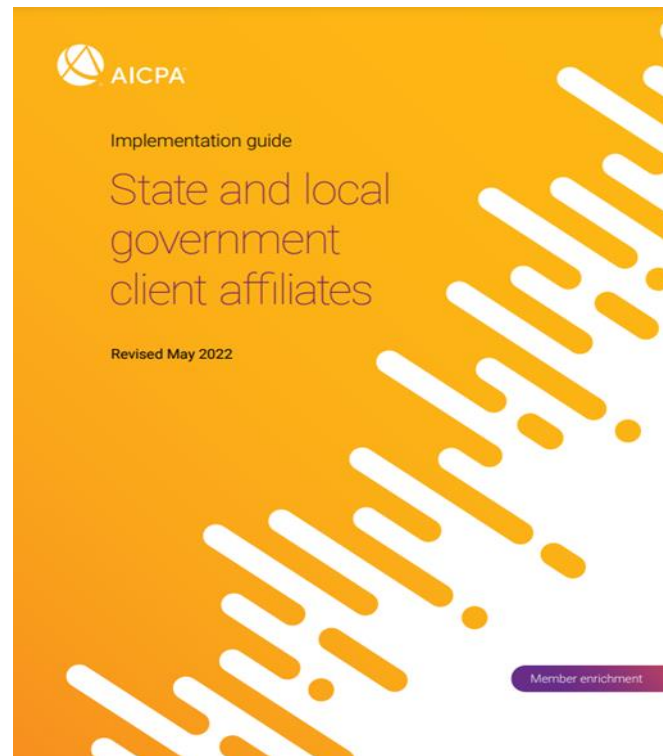
- Independence rules comparison: AICPA and *Government Auditing Standards*
- Practice Aid: Independence Considerations for Information Systems Services
- Implementation Guide: State and local Government Client Affiliates
- Conceptual Framework Toolkit for Independence
- Nonattest Services Toolkit

# Other AICPA Ethics Resources - State and Local Government Client Affiliates

[Implementation guide – includes online tools](#)

[Journal of Accountancy article – July 2022](#)

[GAQC webcast: Understanding the SLG affiliates ethics interpretation](#)





# Other AICPA Ethics Resources

## AICPA Ethics division hotline

- Call 888-777-7077 (option 2, then 3)
- Email [ethics@aicpa.com](mailto:ethics@aicpa.com)

## [AICPA Ethics enforcement page](#)

- Common violation reports
- How to file a complaint

# Other AICPA Resources

## [COVID-19 Resource Center](#)

- Includes [audit and accounting resources](#)

## [Audit and Assurance Web page](#)

A&A Technical Hotline (877) 242-7212 -  
[techinquiry@aicpa.org](mailto:techinquiry@aicpa.org)

[Not-for-Profit Certificate Program](#) - On-demand learning program

[Not-for-Profit Section](#) - For individuals interested in NFP A&A

[EAQ](#) Web site

[Quality Management resources](#)

[Peer Review Web page](#)

Questions?

Panel discussion – What do you think are the most important things that participants should take away from today's event?



## How do I get my CPE certificate?

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- If you need assistance with locating your certificate, please contact the AICPA Service Center at 888.777.7077 or [service@aicpa.org](mailto:service@aicpa.org).



# Thank you