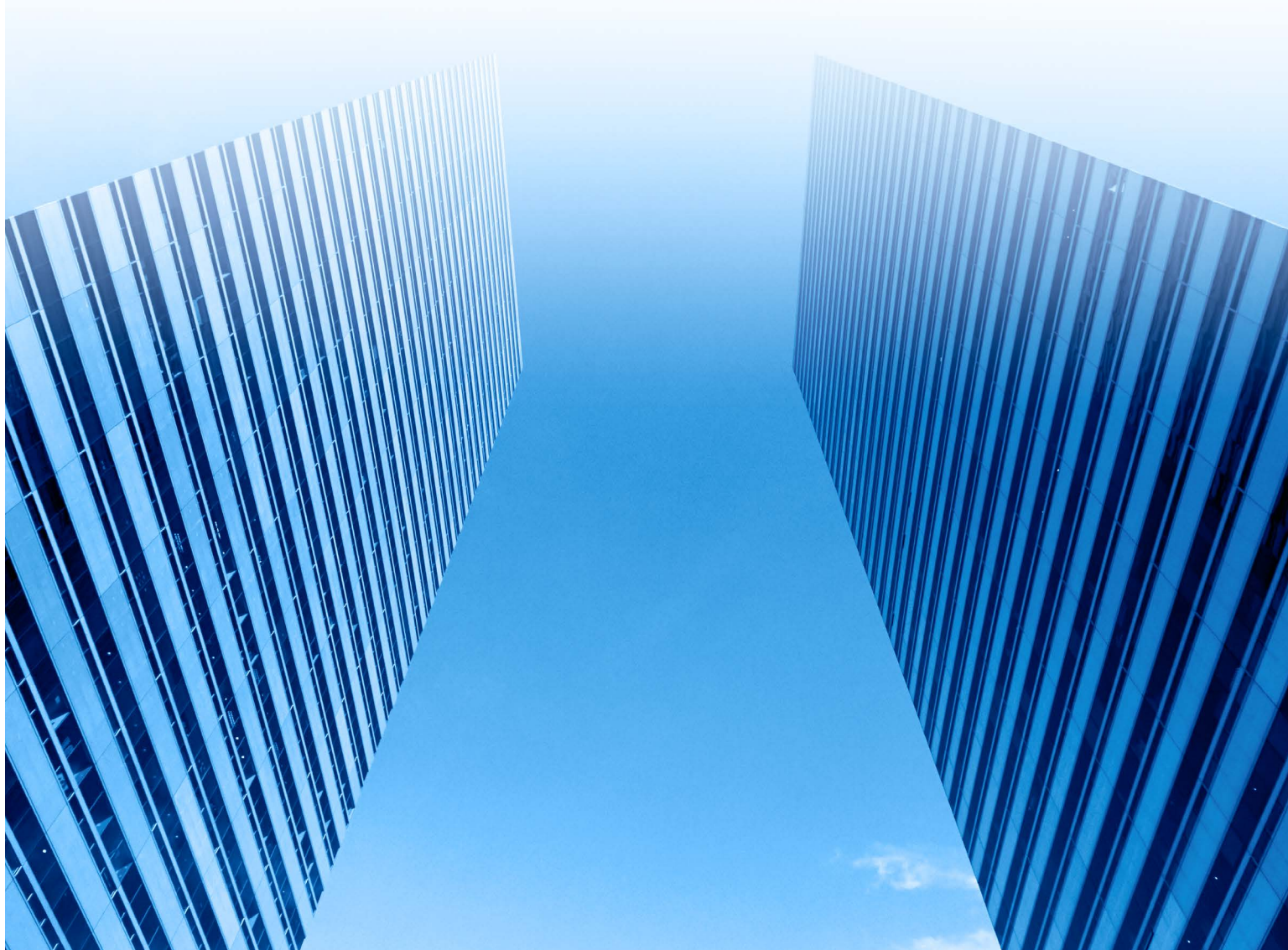


# AICPA — Yellow Book (GAGAS) Independence Rules Comparison



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# INTRODUCTION

## Purpose of the Document

To help AICPA members comply with the AICPA and Yellow Book standards, this document highlights provisions in the [Yellow Book's Independence Standards](#)<sup>1</sup> and compares them to the relevant independence provisions of the [AICPA Code of Professional Conduct](#) (AICPA, *Professional Standards*, ET sec. 1.200). The AICPA code refers to services that do not require independence as *nonattest* services whereas the Yellow Book refers to them as *nonaudit services*.

This document is designed to be an educational and reference tool for AICPA members and others interested in the subject of independence. It is not an authoritative document and often paraphrases the authoritative literature. It does not establish policy positions, standards, or preferred practices. This guidance is distributed with the understanding that the AICPA is not rendering any legal or ethical advice.

<sup>1</sup>Based on the 2011 revision to Government Auditing Standards (the 2011 Yellow Book) issued by the Government Accountability Office (GAO).

## CONCEPTUAL FRAMEWORK APPROACH

The Yellow Book establishes a conceptual framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence. The conceptual framework must be used to evaluate threats to independence when providing all nonaudit services that are not specifically prohibited in the Yellow Book.

The Yellow Book’s conceptual framework shares many characteristics with the AICPA “Conceptual Framework for Independence.” However, the AICPA’s “**Conceptual Framework for Independence**” should be used only when the member is making decisions on independence matters that are not explicitly addressed by the AICPA code (for example, nonattest services not specifically addressed under the “**Nonattest Services**” subtopic (AICPA, Professional Standards, ET sec. 1.295). Accordingly, the Yellow Book conceptual framework will be referenced more often than the AICPA conceptual framework.

### Highlights — Conceptual Framework Approach

AICPA	GAO
<p>The AICPA’s risk-based approach involves the following steps:</p> <p><b>1. Identify threats.</b> The relationships or circumstances that a member encounters in various engagements and work assignments will often create different threats to complying with the rules. When a member encounters a relationship or circumstance that is not specifically addressed by a rule or an interpretation, the member should use the conceptual framework approach to determine whether the relationship or circumstance creates one or more threats. The existence of a threat does not mean that the member is in violation of the rules; however, the member should evaluate the significance of the threat.</p> <p><b>2. Evaluate the significance of a threat.</b> In evaluating the significance of an identified threat, the member should determine whether a threat is at an acceptable level. A threat is at an acceptable level when a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat would not compromise the member’s compliance with the rules. Members should consider both qualitative and quantitative factors when evaluating the significance of a threat, including the extent to which existing safeguards already reduce the threat to an acceptable level. If the member evaluates the threat and concludes that a reasonable and informed third party who is aware of the relevant information would be expected to conclude that the threat does not compromise a member’s compliance with the rules, the threat is at an acceptable level, and the member is not required to evaluate the threat any further under this conceptual framework approach.</p> <p><b>3. Identify and apply safeguards.</b> If, in evaluating the significance of an identified threat, the member concludes that the threat is not at an acceptable level, the member should apply safeguards to eliminate the threat or reduce it to an acceptable level. The member should apply judgment in determining the nature of the safeguards to be applied because the effectiveness of safeguards will vary, depending on the circumstances. When identifying appropriate safeguards to apply, one safeguard may eliminate or reduce multiple threats. In some cases, the member should apply multiple safeguards to eliminate or reduce one threat to an acceptable level. In other cases, an identified threat may be so significant that no safeguards will eliminate the threat or reduce it to an acceptable level, or the member will be unable to implement effective safeguards. Under such circumstances, providing the specific professional services would compromise the member’s compliance with the rules, and the member should determine whether to decline or discontinue the professional services or resign from the engagement. (AICPA, <i>Professional Standards</i>, ET sec. 1.210.010)</p>	<p>The Yellow Book states that auditors should apply the conceptual framework at the audit organization, audit, and individual auditor levels to</p> <ul style="list-style-type: none"> <li>a. identify threats to independence;</li> <li>b. evaluate the significance of the threats identified, both individually and in the aggregate; and</li> <li>c. apply safeguards as necessary to eliminate any significant threats or reduce them to an acceptable level</li> </ul> <p>If no safeguards are available to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired. (Yellow Book, 3.08 – 3.09)</p>

## MANAGEMENT RESPONSIBILITIES

The “**Management Responsibilities**” interpretation in the AICPA code and management responsibilities defined in the Yellow Book are consistent and performance of any of these responsibilities would impair independence.

### Highlights – Management Responsibilities

AICPA	GAO
<p>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.</p> <p>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 the following:</p> <ol style="list-style-type: none"> <li>Setting policy or strategic direction for the attest client</li> <li>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</li> <li>Authorizing, executing, or consummating transactions or otherwise exercising authority on behalf of an attest client or having the authority to do so</li> <li>Preparing source documents, in electronic or other form, that evidence the occurrence of a transaction</li> <li>Having custody of an attest client’s assets</li> <li>Deciding which recommendations of the member or other third parties to implement or prioritize</li> <li>Reporting to those charged with governance on behalf of management</li> <li>Serving as an attest client’s stock transfer or escrow agent, registrar, general counsel or equivalent</li> <li>Accepting responsibility for the management of an attest client’s project</li> <li>Accepting responsibility for the preparation and fair presentation of the attest client’s financial statements in accordance with the applicable financial reporting framework</li> <li>Accepting responsibility for designing, implementing, or maintaining internal control</li> <li>Performing ongoing evaluations of the attest client’s internal control as part of its monitoring activities</li> </ol> <p>(AICPA, <i>Professional Standards</i>, ET sec. 1.295.030)</p>	<p>If an auditor were to assume management responsibilities for an audited entity, the management participation threats created would be so significant that no safeguards could reduce them to an acceptable level. Management responsibilities involve leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, physical, and intangible resources.</p> <p>Whether an activity is a management responsibility depends on the facts and circumstances and auditors exercise professional judgment in identifying these activities. Examples of activities that are considered management responsibilities and would therefore impair independence if performed for an audited entity include the following:</p> <ol style="list-style-type: none"> <li>Setting policies and strategic direction for the audited entity</li> <li>Directing and accepting responsibility for the actions of the audited entity’s employees in the performance of their routine, recurring activities</li> <li>Having custody of an audited entity’s assets</li> <li>Reporting to those charged with governance on behalf of management</li> <li>Deciding which of the auditor’s or outside third party’s recommendations to implement</li> <li>Accepting responsibility for the management of an audited entity’s project</li> <li>Accepting responsibility for designing, implementing, or maintaining internal control</li> <li>Providing services that are intended to be used as management’s primary basis for making decisions that are significant to the subject matter of the audit</li> <li>Developing an audited entity’s performance measurement system when that system is material or significant to the subject matter of the audit</li> <li>Serving as a voting member of an audited entity’s management committee or board of directors</li> </ol> <p>(Yellow Book, 3.35 – 3.36)</p>

## GENERAL REQUIREMENTS FOR PERFORMING NONATTEST SERVICES

The **General Requirements for Performing Nonattest Services** interpretation of the AICPA code and the “general requirements” in the Yellow Book are consistent.

### Highlights — General Requirements for Performing Nonattest Services

AICPA	GAO
<p>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:</p> <ol style="list-style-type: none"> <li>The member determines that the attest client and its management agree to <ol style="list-style-type: none"> <li>assume all management responsibilities as described in the “Management Responsibilities” interpretation [1.295.030].</li> <li>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.</li> <li>evaluate the adequacy and results of the services performed.</li> <li>accept responsibility for the results of the services.</li> </ol> </li> <li>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 <ol style="list-style-type: none"> <li>be able to meet all of the criteria delineated in item a;</li> <li>make an informed judgment on the results of the member’s nonattest services; and</li> <li>accept responsibility for making the significant judgments and decisions that are the proper responsibility of management.</li> </ol> </li> </ol> <p>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.</p> <ol style="list-style-type: none"> <li>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 <ol style="list-style-type: none"> <li>objectives of the engagement,</li> <li>services to be performed,</li> <li>attest client’s acceptance of its responsibilities,</li> <li>member’s responsibilities, and</li> <li>any limitations of the engagement.</li> </ol> </li> </ol> <p>The above safeguards 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 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.”</p> <p>(AICPA, Professional Standards, ET sec. 1.295.040)</p>	<p>In connection with nonaudit services, the auditor should establish and document their understanding with the audited entity’s management or those charged with governance, as appropriate, regarding the following:</p> <ol style="list-style-type: none"> <li>Objectives of the nonaudit services</li> <li>Services to be performed</li> <li>Audited entity’s acceptance of its responsibilities</li> <li>Auditor’s responsibilities</li> <li>Any limitations of the nonaudit service</li> </ol> <p>(Yellow Book, 3.39)</p> <p>Routine activities performed by auditors that relate directly to the performance of an audit are not considered nonaudit services under GAGAS. Examples of routine activities include:</p> <ul style="list-style-type: none"> <li>• Providing advice to the audited entity on an accounting matter as an ancillary part of the overall financial audit;</li> <li>• Researching and responding to the audited entity’s technical questions on relevant tax laws as an ancillary part of providing tax services;</li> <li>• Providing advice to the audited entity on routine business matters;</li> <li>• Educating the audited entity on matters within the technical expertise of the auditors; and</li> <li>• Providing information to the audited entity that is readily available to the auditors, such as best practices and benchmarking studies.</li> </ul> <p>(Yellow Book, 3.40 and 3.41)</p>

## DOCUMENTATION REQUIREMENTS

The Yellow Book has additional documentation requirements beyond those required by the AICPA standards. Though both the AICPA and the Yellow Book require the auditor to assess whether the designated individual who is overseeing the nonaudit services possesses suitable skill, knowledge, and/or experience, the Yellow Book requires this assessment to be documented.

### Highlights — Documentation Requirements

AICPA	GAO
<p><b>Understanding With Client</b> Before performing nonattest services, the member should establish and document in writing his or her understanding with the attest client (board of directors, audit committee, or management, as appropriate in the circumstances) regarding the following:</p> <ul style="list-style-type: none"> <li>a. Objectives of the engagement</li> <li>b. Services to be performed</li> <li>c. Client's acceptance of its responsibilities</li> <li>d. Member's responsibilities</li> <li>e. Any limitations of the engagement</li> </ul> <p>(AICPA, <i>Professional Standards</i>, ET sec. 1.295.050)</p> <p><b>Threats and Safeguards Applied</b> If the threats to independence are not at an acceptable level, safeguards should be applied to eliminate the threats or reduce them to an acceptable level. In cases where threats to independence are not at an acceptable level, thereby requiring the application of safeguards, the threats identified and the safeguards applied to eliminate the threats or reduce them to an acceptable level should be documented. (AICPA, <i>Professional Standards</i>, ET sec. 1.210.010, par. .09)</p> <p><b>Failure to Document</b> A failure to prepare the required documentation would not impair independence, but would be considered a violation of the "Compliance With Standards Rule," provided the member did establish the understanding with the client. (AICPA, <i>Professional Standards</i>, ET sec. 1.295.050)</p>	<p><b>Understanding With Audited Entity</b> In connection with nonaudit services, the auditor should document their understanding with the audited entity's management or those charged with governance, as appropriate, regarding the following:</p> <ul style="list-style-type: none"> <li>a. Objectives of the nonaudit services;</li> <li>b. Service to be performed;</li> <li>c. Audited entity's acceptance of its responsibilities'</li> <li>d. The auditor's responsibilities; and</li> <li>e. Any limitations of the nonaudit service.</li> </ul> <p>(Yellow Book, 3.39)</p> <p><b>Threats and Safeguards Applied</b> In cases where threats to independence are not at an acceptable level, thereby requiring the application of safeguards, the auditor should document the threats identified and the safeguards applied to eliminate the threats or reduce them to an acceptable level. (Yellow Book, 3.24)</p> <p><b>Management's Skills, Knowledge or Experience</b> The auditor should document consideration of management's ability to effectively oversee nonaudit services to be performed. (Yellow Book, 3.34)</p> <p><b>Failure to Document</b> While insufficient documentation of an auditor's compliance with the independence standard does not impair independence, appropriate documentation is required under the GAGAS quality control and assurance requirements. (Yellow Book, 3.59)</p>

## CUMULATIVE EFFECT OF PROVIDING MULTIPLE NONATTEST SERVICES

The AICPA code and Yellow Book both require that the auditor consider the aggregate effect of providing multiple nonaudit services on threats to independence. However, the AICPA code differs from the Yellow Book in that the AICPA code does not require that the member consider the possible threats to independence created due to the provision of nonattest services by other network firms within the firm’s network.

### Highlights — Cumulative Effect of Providing Multiple Nonattest Services

AICPA	GAO
<p>The interpretations of the “Nonattest Services” subtopic under the “Independence Rule” include various examples of nonattest services that individually would not impair independence because the safeguards in the “General Requirements for Performing Nonattest Services” interpretation 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.</p> <p>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.</p> <p>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 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.</p> <p>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. (AICPA, <i>Professional Standards</i>, ET sec. 1.295.020)</p>	<p>Before an auditor agrees to provide a nonaudit service to an audited entity, the auditor should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided. (Yellow Book, 3.34)</p>

## PROVISION OF NONAUDIT SERVICES - GENERAL

Provided a nonaudit service is not expressly prohibited, the Yellow Book requires that the nonaudit service be evaluated using the conceptual framework. The AICPA code would only require use of the conceptual framework if the nonattest service was not covered in the "Nonattest Services" subtopic of the "Independence Rule."

### Highlights — Provision of Nonattest Services — General

AICPA	GAO
<p>The interpretations under the "Nonattest Services" subtopic of the "Independence Rule" provide examples of specific nonattest services that would and would not impair independence. The examples of nonattest services that are identified as not impairing independence presume that the safeguards contained in the "General Requirements for Performing Nonattest Services" interpretation have been met and are not intended to be all-inclusive of the types of nonattest services performed by members. (AICPA, <i>Professional Standards</i>, ET sec. 1.295)</p> <p>For services not addressed by an interpretation, members should use the Conceptual Framework for AICPA Independence Standards to evaluate threats to independence. (AICPA, <i>Professional Standards</i>, ET sec. 1.210.010)</p>	<p>Auditors may be able to provide nonaudit services without impairing independence if</p> <ol style="list-style-type: none"><li>1. the nonaudit services are not expressly prohibited,</li><li>2. the auditor has determined that the general requirements for performing nonaudit services have been met, and</li><li>3. any significant threats to independence have been eliminated or reduced to an acceptable level through the application of safeguards.</li></ol> <p>Auditors should use the conceptual framework to evaluate independence given the facts and circumstances of individual services not specifically prohibited. (Yellow Book, 3.46)</p>

# BOOKKEEPING SERVICES AND PREPARING ACCOUNTING RECORDS AND FINANCIAL STATEMENTS

The Yellow Book is generally consistent with the AICPA code. Although both consider activities such as financial statement preparation and cash to accrual conversions as nonaudit services, under GAGAS these services must be evaluated using the conceptual framework.

## Highlights — Bookkeeping Services and Preparing Accounting Records and Financial Statements

AICPA	GAO
<p>Independence <b>would not</b> be considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>Records transactions to an attest client's general ledger when management has determined or approved the account classifications for the transaction.</li> <li>Posts client-coded transactions to an attest client's general ledger.</li> <li>Prepares financial statements based on information in the attest client's trial balance.</li> <li>Posts client-approved journal or other entries to an attest client's trial balance.</li> <li>Proposes standard, adjusting, or correcting journal entries or other changes affecting the financial statements to the attest client. Prior to the member posting these journal entries or changes, the member should be satisfied that management has reviewed the entries and understands the nature of the proposed entries and the effect the entries will have on the attest client's financial statements.</li> <li>Prepares a reconciliation (for example, bank and accounts receivable) that identifies reconciling items for the client's evaluation.</li> </ul> <p>Independence <b>would be</b> considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>Determines or changes journal entries, any account coding or classification of transactions, or any other accounting records without first obtaining the attest client's approval.</li> <li>Authorizes or approves transactions.</li> <li>Prepares source documents.</li> <li>Makes changes to source documents without the attest client's approval.</li> </ul> <p>(AICPA, <i>Professional Standards</i>, ET sec. 1.295.120)</p>	<p>Independence <b>is not necessarily</b> impaired if the auditor</p> <ul style="list-style-type: none"> <li>Records transactions for which management has determined or approved the appropriate account classification, or posting coded transactions to an audited entity's general ledger.</li> <li>Prepares financial statements based on information in the trial balance.</li> <li>Posts entries that have been approved by an audited entity's management to the entity's trial balance</li> <li>Prepares account reconciliations that identify reconciling items for the audited entity management's evaluation.</li> <li>Proposes standard, adjusting, or correcting journal entries or other changes affecting the financial statements to an audited entity's management provided management reviews and accepts the entries and the auditor is satisfied that management understands the nature of the proposed entries and the impact the entries have on the financial statements.</li> </ul> <p>(Yellow Book, 3.52)</p> <p>Independence <b>would be</b> considered to be impaired if the auditor</p> <ul style="list-style-type: none"> <li>Determines or changes journal entries, account codes or classifications for transactions, other accounting records for the entity without obtaining management's approval</li> <li>Authorizes or approves the entity's transactions</li> <li>Prepares or makes changes to source documents without management approval. Source documents include those providing evidence that transactions have occurred (for example, purchase orders, payroll time records, customer orders, and contracts). Such records also include an audited entity's general ledger and subsidiary records or equivalent.</li> </ul> <p>(Yellow Book, 3.50)</p>

## NONTAX DISBURSEMENTS

The services prohibited under the Yellow Book are consistent with the AICPA code. The AICPA code also provides examples of permitted services when the safeguards from the “[General Requirements for Performing Nonattest Services](#)” interpretation are applied.

### Highlights — Nontax Disbursements

AICPA	GAO
<p>Independence <b>would be</b> considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>• Accepts responsibility to authorize payment of attest client funds, electronically or otherwise, except for electronic payroll tax payments when the member complies with the requirements of the “Tax Services” interpretation [1.295.160] of the “Independence Rule.”</li> <li>• Accepts responsibility to sign or cosign an attest client’s checks, even if only in emergency situations.</li> <li>• Maintains an attest client’s bank account or otherwise has custody of an attest client’s funds or makes credit or banking decisions for the attest client.</li> <li>• Approves vendor invoices for payment.</li> </ul> <p>Independence <b>would not</b> be considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>• Generates unsigned checks using source documents or other records provided and approved by the attest client.</li> <li>• Processes an attest client’s payroll using payroll time records that the attest client has provided and approved.</li> <li>• Transmits client-approved payroll or other disbursement information to a bank or similar entity subsequent to the attest client’s review and authorization for the member to make the transmission. Prior to such transmission, the attest client is responsible for making the arrangements with the bank or similar entity to limit the corresponding individual payments regarding the amount and payee. In addition, once transmitted, the attest client must authorize the bank or similar entity to process the payroll information.</li> </ul> <p>(AICPA, <i>Professional Standards</i>, ET sec. 1.295.120)</p>	<p>Independence <b>would be</b> considered to be impaired if the auditor</p> <ul style="list-style-type: none"> <li>• Accepts responsibility to authorize payment of audited entity funds, electronically or otherwise.</li> <li>• Accepts responsibility for signing or cosigning audited entity checks, even if only in emergency situations.</li> <li>• Maintains an audited entity’s bank account or otherwise has custody of an audited entity’s funds or makes credit or banking decisions for the audited entity.</li> <li>• Approves vendor invoices for payment.</li> </ul> <p>(Yellow Book, 3.58)</p> <p>For all other services, auditors should use the conceptual framework to evaluate potential threats to independence and if threats are significant, apply safeguards to eliminate such threats or reduce them to an acceptable level.</p>

## BENEFIT PLAN ADMINISTRATION

The services prohibited under the Yellow Book are consistent with the AICPA code. The AICPA code also provides examples of permitted services when the safeguards from the “[General Requirements for Performing Nonattest Services](#)” interpretation are applied.

### Highlights — Benefit Plan Administration

AICPA	GAO
<p>Independence <b>would be</b> considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>• Makes policy decisions on behalf of management.</li> <li>• Interprets the provisions in a plan document for a plan participant on behalf of management without first obtaining management’s concurrence.</li> <li>• Makes disbursements on behalf of the plan.</li> <li>• Has custody of the plan’s assets.</li> <li>• Serves in a fiduciary capacity, as defined by ERISA</li> </ul> <p>Independence <b>would not</b> be considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>• Communicates summary plan data to a plan trustee.</li> <li>• Advises management regarding the application and impact of provisions in a plan document.</li> <li>• Processes certain transactions that have been initiated by plan participations or approved by the plan administrators using the member’s electronic media, such as an interactive voice response system or Internet connection or other media. Such transactions may include processing investment or benefit elections, changes in contributions to the plan, data entry, participant confirmations, and distributions and loans.</li> <li>• Prepares account valuations for plan participants using data collected through the member’s electronic or other media.</li> <li>• Prepares and transmit participant statements to plan participants based on data collected through the member’s electronic or other media.</li> </ul> <p>(AICPA, <i>Professional Standards</i>, ET sec. <a href="#">1.295.115</a>)</p>	<p>Independence <b>would be</b> considered to be impaired if the auditor</p> <ul style="list-style-type: none"> <li>• Makes policy decision on behalf of audited entity management.</li> <li>• When dealing with plan participants, interprets the plan document on behalf of management without first obtaining management’s concurrence.</li> <li>• Makes disbursements on behalf of the plan</li> <li>• Has custody of a plan’s assets.</li> <li>• Serves a plan as a fiduciary as defined by Employment Retirement Income Security Act (ERISA)</li> </ul> <p>(Yellow Book, 3.58)</p> <p>For all other services, auditors should use the conceptual framework to evaluate potential threats to independence and if threats are significant, apply safeguards to eliminate such threats or reduce them to an acceptable level.</p>

## INVESTMENT ADVISORY OR MANAGEMENT

The services prohibited under the Yellow Book are consistent with the AICPA code. The AICPA code also provides examples of permitted services when the safeguards from the “[General Requirements for Performing Nonattest Services](#)” interpretation are applied.

### Highlights — Investment Advisory or Management

AICPA	GAO
<p>Independence <b>would be</b> considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>• Makes investment decisions on behalf of management or otherwise has discretionary authority over an attest client’s investments.</li> <li>• Executes a transaction to buy or sell an attest client’s investments.</li> <li>• Has custody of an attest client’s assets, such as taking temporary possession of securities purchased by an attest client.</li> </ul> <p>Independence <b>would not</b> be considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>• Recommends the attest client’s allocation of funds among various investments or asset classes based upon the attest client’s desired rate of return, risk tolerance, or other parameters.</li> <li>• Performs recordkeeping and reporting of the attest client’s portfolio balances, including providing the attest client with a comparative analysis of the attest client’s investments to third-party benchmarks.</li> <li>• Evaluates the manner in which an attest client’s portfolio is being managed by investment account managers, including assessing whether the managers are <ul style="list-style-type: none"> <li>– following the guidelines of the attest client’s investment policy statement.</li> <li>– meeting the attest client’s investment objectives.</li> <li>– conforming to the attest client’s stated investment parameters or risk tolerance.</li> </ul> </li> <li>• Transmits an attest client’s investment selection, with the attest client’s consent, to the attest client’s broker-dealer or equivalent, provided that the attest client has authorized the broker-dealer or equivalent to execute the transaction.</li> </ul> <p>(AICPA, <i>Professional Standards</i>, ET sec. <a href="#">1.295.155</a>)</p>	<p>Independence <b>would be</b> considered to be impaired if the auditor</p> <ul style="list-style-type: none"> <li>• Makes investment decisions on behalf of audited entity management or otherwise has discretionary authority over an audited entity’s investments.</li> <li>• Executes a transaction to buy or sell an audited entity’s investment</li> <li>• Has custody of an audited entity’s assets, such as taking temporary possession of securities purchased by an audited entity.</li> </ul> <p>(Yellow Book, 3.58)</p> <p>For all other services, auditors should use the conceptual framework to evaluate potential threats to independence and if threats are significant, apply safeguards to eliminate such threats or reduce them to an acceptable level.</p>

## CORPORATE FINANCE CONSULTING

The services prohibited under the Yellow Book are consistent with the AICPA code. The AICPA code also provides examples of permitted services when the safeguards from the “[General Requirements for Performing Nonattest Services](#)” interpretation are applied.

### Highlights — Corporate Finance Consulting

AICPA	GAO
<p>Independence <b>would be</b> considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>• Commits the attest client to the terms of a transaction.</li> <li>• Consummates a transaction on behalf of the attest client.</li> <li>• Acts as a promoter, an underwriter, a broker-dealer, or a guarantor of an attest client’s securities or as a distributor of private placement memoranda or offering documents.</li> <li>• Maintains custody of an attest client’s securities.</li> </ul> <p>Independence <b>would not</b> be considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>• Assists management in developing its corporate strategies.</li> <li>• Assists management in identifying possible sources of capital that meet the attest client’s specifications or criteria.</li> <li>• Introduces management to possible sources of capital that meet the attest client’s specifications or criteria.</li> <li>• Assists management in analyzing the effects of proposed transactions with potential buyers, sellers, or capital sources.</li> <li>• Advises an attest client during its negotiations with potential buyers, sellers, or capital sources.</li> <li>• Assists the attest client in drafting its offering document or memorandum.</li> <li>• Participates with management in its transaction negotiations in an advisory capacity.</li> <li>• Is named as a financial adviser in an attest client’s private placement memoranda or offering documents.</li> </ul> <p>(AICPA, <i>Professional Standards</i>, ET sec. <a href="#">1.295.130</a>)</p>	<p>Independence <b>would be</b> considered to be impaired if the auditor</p> <ul style="list-style-type: none"> <li>• Commits the audited entity to the terms of a transaction or consummates a transaction on behalf of an audited entity.</li> <li>• Acts as a promoter, underwriter, broker-dealer, or guarantor of audited entity securities, or distributor of private placement memoranda or offering documents.</li> <li>• Maintains custody of an audited entity’s securities.</li> </ul> <p>(Yellow Book, 3.58)</p> <p>For all other services, auditors should use the conceptual framework to evaluate potential threats to independence and if threats are significant, apply safeguards to eliminate such threats or reduce them to an acceptable level.</p>

## APPRAISAL AND VALUATION SERVICES

The services prohibited under the Yellow Book are consistent with the AICPA code. The AICPA code also provides examples of permitted services when the safeguards from the “[General Requirements for Performing Nonattest Services](#)” interpretation are applied.

### Highlights — Appraisal and Valuation Services

AICPA	GAO
<p>Independence <b>would be</b> impaired if a member performs an appraisal, valuation, or actuarial service for an attest client in which the results of the service, individually or in the aggregate, would be material to the financial statements and the appraisal, valuation, or actuarial services involves a significant degree of subjectivity.</p> <p>Valuations performed in connection with, for example, employee stock ownership plans, business combinations, or appraisals of assets or liabilities generally involve a significant degree of subjectivity. Accordingly, if these services produce results that are material to the financial statements, independence would be impaired.</p> <p>An actuarial valuation of a client’s pension or postemployment benefit liabilities generally does not require a significant degree of subjectivity and therefore, would not impair independence. In addition, appraisal, valuation, and actuarial services performed for nonfinancial statement purposes such as those performed for tax planning or tax compliance, estate and gift taxation and divorce proceedings would not impair independence.</p> <p>In performing such services, all significant assumptions and matters of judgment should be determined or approved by the client and the client should be in a position to have an informed judgment on, and accept responsibility for, the results of the service. (AICPA, <i>Professional Standards</i>, ET sec. 1.295.110)</p>	<p>Independence would be impaired if an auditor provides valuation services to an audited entity and the valuations would have a material effect, separately or in the aggregate, on the financial statements or other information on which it is reporting, and the valuation involves a significant degree of subjectivity. (Yellow Book, 3.57)</p> <p>For all other valuation services, auditors should use the conceptual framework to evaluate potential threats to independence and if threats are significant, apply safeguards to eliminate such threats or reduce them to an acceptable level.</p>

## INFORMATION TECHNOLOGY SERVICES

The services prohibited under the Yellow Book are consistent with the AICPA code. The AICPA code also provides examples of permitted services when the safeguards from the “[General Requirements for Performing Nonattest Services](#)” interpretation are applied.

### Highlights — Information Technology Services

AICPA	GAO
<p>Independence <b>would be</b> considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>• Designs or develops an attest client’s financial information system.</li> <li>• Makes other than insignificant modifications to source code underlying an attest client’s existing financial information system.</li> <li>• Supervises attest client personnel in the daily operation of an attest client’s information system.</li> <li>• Operates an attest client’s network.</li> </ul> <p>Independence would not be considered to be impaired if the member —</p> <ul style="list-style-type: none"> <li>• Install or integrate an attest client’s financial information system that the member did not design or develop (for example, an off-the-shelf accounting package).</li> <li>• Assist in setting up the attest client’s chart of accounts and financial statement format with respect to the attest client’s financial information system.</li> <li>• Design, develop, install, or integrate an attest client’s information system that is unrelated to the attest client’s financial statements or accounting records.</li> <li>• Provide training and instruction to an attest client’s employees on an information and control system.</li> <li>• Perform network maintenance, such as updating virus protection, applying routine updates and patches, or configuring user settings consistent with management’s request.</li> </ul> <p>(AICPA, <i>Professional Standards</i>, ET sec. <a href="#">1.295.145</a>)</p>	<p>Independence would be considered to be impaired if the auditor</p> <ul style="list-style-type: none"> <li>• Designs or develops a financial or other IT system that will play a significant role in the management of an area of operations that is or will be the subject matter of an audit.</li> <li>• Provides services that entail making other than insignificant modifications to the source code underlying such a system.</li> <li>• Operates or supervises the operation of such a system.</li> </ul> <p>(Yellow Book, 3.56)</p> <p>For all other services, auditors should use the conceptual framework to evaluate potential threats to independence and if threats are significant, apply safeguards to eliminate such threats or reduce them to an acceptable level.</p>

## HUMAN RESOURCE SERVICES

The services prohibited under the Yellow Book are consistent with the AICPA code. The AICPA code also provides examples of permitted services when the safeguards from the “[General Requirements for Performing Nonattest Services](#)” interpretation

### Highlights — Human Resource Services

AICPA	GAO
<p>Independence would be considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>• Commits the attest client to employee compensation or benefit arrangements.</li> <li>• Hires or terminates the attest client’s employees.</li> </ul> <p>Independence would not be considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>• Recommends a position description or candidate specifications.</li> <li>• Solicits and screen candidates based on client-approved criteria, such as required education, skills, or experience.</li> <li>• Recommends qualified candidates to the attest client for their consideration based on client-approved criteria.</li> <li>• Participates in employee hiring or compensation discussions in an advisory capacity.</li> </ul> <p>(AICPA, <i>Professional Standards</i>, ET sec. <a href="#">1.295.135</a>)</p>	<p>Independence would be considered to be impaired if the auditor —</p> <ul style="list-style-type: none"> <li>• Commits the audited entity to employee compensation or benefit arrangements.</li> <li>• Hires or terminates audited entity employees.</li> </ul> <p>(Yellow Book, 3.58)</p> <p>For all other services, auditors should use the conceptual framework to evaluate potential threats to independence and if threats are significant, apply safeguards to eliminate such threats or reduce them to an acceptable level.</p>

## BUSINESS RISK CONSULTING

The services prohibited under the Yellow Book are consistent with the AICPA code. The AICPA code also provides examples of permitted services when the safeguards from the “[General Requirements for Performing Nonattest Services](#)” interpretation are applied.

### Highlights — Business Risk Consulting

AICPA	GAO
<p>Independence <b>would be</b> considered to be impaired if the member</p> <ul style="list-style-type: none"><li>• Makes or approves business risk decisions.</li><li>• Presents business risk considerations to the board or others on behalf of management.</li></ul> <p>Independence would not be considered to be impaired if the member</p> <ul style="list-style-type: none"><li>• Assists management in its assessment of the attest client’s business risk control processes.</li><li>• Recommends improvements to an attest client’s business risk control processes and assists in the implementation of these improvements. (AICPA, <i>Professional Standards</i>, ET sec. <a href="#">1.295.125</a>)</li></ul>	<p>Independence <b>would be</b> considered to be impaired if the auditor —</p> <ul style="list-style-type: none"><li>• Makes or approves business risk decisions.</li><li>• Presents business risk considerations to those charged with governance or others on behalf of management. (Yellow Book, 3.58)</li></ul> <p>For all other services, auditors should use the conceptual framework to evaluate potential threats to independence and if threats are significant, apply safeguards to eliminate such threats or reduce them to an acceptable level.</p>

## INTERNAL AUDIT ASSISTANCE SERVICES

The services prohibited under the Yellow Book are consistent with the AICPA code. The AICPA code also provides examples of permitted services when the safeguards from the “[General Requirements for Performing Nonattest Services](#)” interpretation are applied.

### Highlights — Internal Audit Assistance Services

AICPA	GAO
<p>Independence <b>would be</b> considered to be impaired if the member</p> <ul style="list-style-type: none"> <li>• In effect, manages the attest client’s internal audit activities.</li> <li>• Performs ongoing evaluations or control activities (for example, reviewing loan originations as part of the attest client’s approval process or reviewing customer credit information as part of the customer’s sales authorization process) that affect the execution of transactions or ensure that transactions are properly executed or accounted for, or both, and performs routine activities in connection with the attest client’s operating or production processes that are equivalent to those of an ongoing compliance or quality control function.</li> <li>• Performs separate evaluations on the effectiveness of a significant control such that the member is, in effect, performing routine operations that are built into the attest client’s business process.</li> <li>• Has attest client management rely on the member’s work as the primary basis for the attest client’s assertions on the design or operating effectiveness of internal controls.</li> <li>• Determines which, if any, recommendations for improving the internal control system should be implemented.</li> <li>• Reports to the board of directors or audit committee on behalf of management or the individual responsible for the internal audit function.</li> <li>• Approves or is responsible for the overall internal audit work plan, including the determination of the internal audit risk and scope, project priorities, and frequency of performance of audit procedures.</li> <li>• Is connected with the attest client as an employee or in any capacity equivalent to a member of management (for example, being listed as an employee in the attest client’s directories or other attest client publications, permitting himself or herself to be referred to by title or description as supervising or being in charge of the attest client’s internal audit function, or using the attest client’s letterhead or internal correspondence forms in communications).</li> </ul> <p>Independence <b>would not</b> be considered to be impaired if the member assists the client in performing financial and operational internal audit activities provided the member takes appropriate steps to ensure that the attest client understands its responsibility for directing the internal audit function, including the management thereof. Such responsibilities include designing, implementing, and maintaining internal control.</p> <p>For example, the member should ensure that management of the attest client</p> <ul style="list-style-type: none"> <li>• Designates an individual or individuals who possess suitable skill, knowledge, and experience, preferably within senior management, to be responsible for the internal audit function;</li> <li>• Determines the scope, risk, and frequency of internal audit activities, including those the member will perform in providing the services;</li> <li>• Evaluates the findings and results arising from the internal audit activities, including those the member will perform in providing the services; and</li> <li>• Evaluates the adequacy of the audit procedures performed and the findings resulting from the performance of those procedures.</li> </ul> <p>When these safeguards are combined with the safeguards provided for in the “General Requirements for Performing Nonattest Services” interpretation, threats should be at an acceptable level so that the member may</p> <ul style="list-style-type: none"> <li>• Assess whether client personnel’s performance is in compliance with management’s policies and procedures,</li> <li>• Identify opportunities for improvement, and recommend improvement or further action for management consideration and decision-making.</li> </ul> <p>(AICPA, <i>Professional Standards</i>, ET sec. <a href="#">1.295.150</a>)</p>	<p>Independence <b>would be</b> considered to be impaired if the auditor</p> <ul style="list-style-type: none"> <li>• Policies or the strategic direction of internal audit activities.</li> <li>• Procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges.</li> <li>• The scope of the internal audit function and resulting work.</li> </ul> <p>(Yellow Book, 3.53)</p> <p>For all other services, auditors should use the conceptual framework to evaluate potential threats to independence and if threats are significant, apply safeguards to eliminate such threats or reduce them to an acceptable level.</p>

## INTERNAL CONTROL MONITORING

The Yellow Book is consistent with the AICPA code in that the performance of ongoing monitoring activities would impair independence. The Yellow Book is also consistent with the AICPA code with respect to the performance of separate evaluations as the member must consider the significance of any threats created by performing separate evaluations.

### Highlights — Internal Control Monitoring

AICPA	GAO
<p>Designing, implementing, or maintaining the attest client's monitoring activities are management responsibilities. Accordingly, independence would be impaired if a member accepts responsibility for performing such activities. Monitoring activities are procedures performed to assess whether components of internal control are present and functioning. Monitoring can be done through ongoing evaluations, separate evaluations, or some combination of the two. Ongoing evaluations are generally defined, routine operations built in to the attest client's business processes and performed on a real-time basis. Ongoing evaluations, including managerial activities and everyday supervision of employees, monitor the presence and functioning of the components of internal control in the ordinary course of managing the business. A member who performs such activities for an attest client would be considered to be accepting responsibility for maintaining the attest client's internal control. Accordingly, the management participation threat created by a member performing ongoing evaluations is so significant that no safeguards could reduce the threat to an acceptable level, and thus independence would be impaired.</p> <p>Separate evaluations are conducted periodically and generally not ingrained within the business but can be useful in taking a fresh look at whether internal controls are present and functioning. Such evaluations include observations, inquiries, reviews, and other examinations, as appropriate, to ascertain whether controls are designed, implemented, and conducted. The scope and frequency of separate evaluations is a matter of judgment and vary depending on assessment of risks, effectiveness of ongoing evaluations, and other considerations. Because separate evaluations are not built into the attest client's business process, separate evaluations generally do not create a significant management participation threat to independence.</p> <p>Members should refer to the Committee of Sponsoring Organizations of the Treadway Commission's (COSO's) Internal Control—Integrated Framework, for additional guidance on monitoring activities and distinguishing between ongoing and separate evaluations.</p> <p>Members should use judgment in determining whether otherwise permitted internal audit services performed may result in a significant management participation threat to independence, considering factors such as the significance of the controls being tested, the scope or extent of the controls being tested in relation to the overall financial statements of the client, as well as the frequency of the internal audit services. If the threat to independence is considered significant, the member should apply safeguards to eliminate or reduce the threat to an acceptable level. If no safeguards could reduce the threat to an acceptable level, then independence would be impaired. (AICPA, <i>Professional Standards</i>, ET sec. 1.295.150)</p>	<p>Accepting responsibility for designing, implementing, or maintaining internal control includes accepting responsibility for designing, implementing, or maintaining monitoring procedures. Monitoring involves the use of either ongoing monitoring procedures or separate evaluations to gather and analyze persuasive information supporting conclusions about the effectiveness of the internal control system.</p> <p>Ongoing monitoring procedures performed on behalf of management are built into the routine, recurring operating activities of an organization. Therefore, the management participation threat created if a member performs or supervises ongoing monitoring procedures is so significant that no safeguards could reduce the threat to an acceptable level.</p> <p>Separate evaluations are sometimes performed as nonaudit services by individuals who are not directly involved in the operation of the controls being monitored. As such it is possible for an auditor to provide an objective analysis of control effectiveness by performing separate evaluations without creating a management participation threat that would impair independence. However, in all cases, the significance of the threat created by performing separate evaluations should be evaluated and safeguards applied when necessary to eliminate the threat or reduce it to an acceptable level. Auditors should assess the frequency of the separate evaluations as well as the scope or extent of the controls (in relation to the scope of the audit performed) being tested when evaluating the significance of the threat. An evaluation prepared as a nonaudit service is not a substitute for audit procedures in a GAGAS audit. (Yellow Book, 3.54 – 3.55)</p>



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