



Audited entity: \_\_Small Town USA\_\_\_\_\_

Period end: \_\_December 31, 2012\_\_\_\_\_

Completion of this practice aid will assist the auditor in evaluating and documenting threats, both individually and in the aggregate, to independence resulting from the performance of nonaudit service(s); determining safeguards to be applied when threats are significant; and otherwise documenting the evaluation of the audited entity’s skills, knowledge, or experience (SKE) and the understanding established with the audited entity regarding the nonaudit service(s) to be provided. See appendix A, “Detailed Instructions to This Practice Aid,” for detailed instructions for completing this practice aid. Certain responses may indicate that independence impairments exist, at which point the auditor should stop the evaluation and either not perform the nonaudit service or not perform the audit. Items in **RED** are indications that independence will be impaired.

**Section I: Prohibited Nonaudit Services—Management Responsibilities**

(1)	(1a)	(2)	(3)
<i>Nonaudit services to be provided</i>	<i>Detailed description of the nature and extent of nonaudit services provided</i>	<i>Is there a specific prohibition against any of the nonaudit services (appendix C, “Prohibited Nonaudit Services,” includes a summary of prohibited nonaudit services)? If “Yes,” STOP; independence will be impaired. If “No,” proceed to column (3).</i>	<i>Will the nonaudit service involve assuming management responsibilities (see appendix C)? If “Yes,” STOP; independence will be impaired. If “No,” proceed to section II.</i>
Preparing financial statements	We will prepare the financial statements, including note disclosures and GASB Statement No. 34 conversion entries. Small Town USA will provide a trial balance to be used in the preparation of the financial statements.	No	No
Preparing journal entries other than proposed audit entries	We will propose and prepare year-end adjusting entries for Small Town USA. Small Town USA’s management will review and approve all journal entries.	No	No
Preparing reconciliations	We will prepare the property tax roll reconciliation for Small Town USA. Small Town USA’s management will review and approve the reconciliation.	No	No
Other—preparing depreciation schedule	We will prepare the depreciation schedule for Small Town USA. Small Town USA will make all decisions on useful lives and the depreciation methods used.	No	No
Other			
Other			
Other			

**Section II: Nonaudit Services—Evaluation of Threats to Independence and the Application of Safeguards**

(1)	(4)	(5)	(6)
<i>Nonaudit services to be provided (repeat summary description from section I)</i>	<i>Are threats significant (see Appendix D, “Threat Indicators,” for threat indicators)? If “Yes,” identify significant threats below and proceed to column (5). If “No,” indicate “N/A” in columns (5)–(6) and proceed to section III for the documentation required for all nonaudit services to be provided.</i>	<i>Can safeguards be applied when threats are significant? If “No,” STOP; independence will be impaired. If “Yes,” document below the safeguards to be applied and proceed to column (6). (See appendix E, “Application of Safeguards,” for examples of safeguards.)</i>	<i>Will the application of the safeguards eliminate or reduce the significant threat(s) to an acceptable level? If “No,” STOP; independence will be impaired. If “Yes,” proceed to section III for the documentation required for all nonaudit services to be provided.</i>
Preparing financial statements	Yes, management participation and self-review threats	We will have Nancy, an auditor not assigned to this engagement, review the financial statements and will discuss with the chair of the audit committee of Small Town USA the extent and nature of entries and adjustments. The finance director will review the financial statements and complete a disclosure checklist.	Yes
Preparing journal entries other than proposed audit entries	Yes, same as the above.	To the extent applicable, we will employ the same safeguards as those previously described for preparing the financial statements.	Yes
Preparing reconciliations	Yes, same as the above.	To the extent applicable, we will employ the same safeguards as those previously described for preparing financial statements.	Yes
Other—preparing depreciation schedule	No	N/A	N/A
Other			
Other			
Other			

**Section III: Nonaudit Services—Documentation of Skills, Knowledge, or Experience of the Individual(s) Designated by the Audited Entity to Oversee Nonaudit Services**

**Note:** This section must be completed for ALL nonaudit services to be provided, regardless of whether a significant threat to independence is identified.

(1)	(7)	(8)
<i>Nonaudit services to be provided (repeat summary description from section I)</i>	<i>Identify the individual(s) designated by the audited entity to oversee nonaudit services.</i>	<i>Document SKE of the designated individual(s), or provide a working paper reference to separate documentation. (See Appendix F, “Evaluation of Skills, Knowledge, or Experience,” for more information on evaluating SKE.) If the individual at the audited entity has suitable SKE, proceed to section IV for the documentation required for all nonaudit services to be provided. If no individual at the audited entity has suitable SKE to oversee the nonaudit service(s), indicate below and <b>STOP; independence will be impaired.</b></i>
Preparing financial statements	Dave, finance director	Dave has a B.A. in accounting; 10 years’ experience in government finance, including 5 years with Small Town USA; and obtains adequate continuing professional education in governmental accounting. In addition, we have observed his ability to oversee the preparation of financial statements in prior years.
Preparing journal entries other than proposed audit entries	Dave, finance director	See the preceding. Additionally, we have observed Dave’s ability to review and approve journal entries in prior years.
Preparing reconciliations	Shelly, accounting clerk	Shelly has worked for Small Town USA as an accounting clerk for 15 years. Her responsibilities have always included maintaining the property tax rolls for the town. We have observed her ability to review and approve the property tax reconciliation in prior years.
Other—preparing depreciation schedule	Shelly, accounting clerk	Shelly has worked for Small Town USA as an accounting clerk for 15 years. Her responsibilities have always included preparing and maintaining a listing of fixed assets added and deleted during the year. We observed her ability to provide reasonable estimated useful lives and proper methodology in prior years.
Other		
Other		
Other		

## Section IV: Establish and Document the Understanding With the Audited Entity Regarding Nonaudit Services

**Note:** This section is required for ALL nonaudit services to be provided, regardless of whether there is a significant threat to independence is identified.

(1)	(9)	(10)	(11)	(12)
<p><i>Nonaudit services to be provided (repeat summary description from section I)</i></p>	<p><i>Document that the audited entity agrees to each of the management responsibilities described below in (a)–(c), or provide a working paper reference to where such an agreement is documented (for example, a reference to an engagement letter). <b>If management is unwilling 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 agrees to assume all management responsibilities.</i></li> <li><i>b. The audited entity agrees to evaluate the adequacy and results of the nonaudit services performed.</i></li> <li><i>c. The audited entity agrees to accept responsibility for the results of the nonaudit services.</i></li> </ul>	<p><i>Document the understanding established with the audited entity regarding the objectives of the nonaudit services, or provide a working paper reference to where such is documented.</i></p>	<p><i>Document the understanding established with the audited entity regarding the auditor’s responsibilities, or provide a working paper reference to where such is documented.</i></p>	<p><i>Document the understanding established with the audited entity regarding the limitations, if any, on the nonaudit services to be provided, or provide a working paper reference to where such is documented.</i></p>
<p>Preparing financial statements</p>	<p>See working paper (WP) A-2.<sup>1</sup></p>	<p>See WP A-2.</p>	<p>See WP A-2.</p>	<p>See item 1 on continuation page-section IV</p>
<p>Preparing journal entries other than proposed audit entries</p>	<p>See WP A-2.</p>	<p>See WP A-2.</p>	<p>See WP A-2.</p>	<p>See above.</p>
<p>Preparing reconciliations</p>	<p>See WP A-2.</p>	<p>See WP A-2.</p>	<p>See WP A-2.</p>	<p>See above.</p>

<sup>1</sup> The reference to working paper A-2 refers to the engagement letter.

(1)	(9)	(10)	(11)	(12)
<p><i>Nonaudit services to be provided (repeat summary description from section I)</i></p>	<p><i>Document that the audited entity agrees to each of the management responsibilities described below in (a)–(c), or provide a working paper reference to where such an agreement is documented (for example, a reference to an engagement letter). <b>If management is unwilling 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 agrees to assume all management responsibilities.</i></li> <li><i>b. The audited entity agrees to evaluate the adequacy and results of the nonaudit services performed.</i></li> <li><i>c. The audited entity agrees to accept responsibility for the results of the nonaudit services.</i></li> </ul>	<p><i>Document the understanding established with the audited entity regarding the objectives of the nonaudit services, or provide a working paper reference to where such is documented.</i></p>	<p><i>Document the understanding established with the audited entity regarding the auditor’s responsibilities, or provide a working paper reference to where such is documented.</i></p>	<p><i>Document the understanding established with the audited entity regarding the limitations, if any, on the nonaudit services to be provided, or provide a working paper reference to where such is documented.</i></p>
<p>Other—preparing depreciation schedule</p>	<p>See WP A-2.</p>	<p>See WP A-2.</p>	<p>See WP-A2.</p>	<p>See above.</p>
<p>Other</p>				
<p>Other</p>				
<p>Other</p>				

## Section V: Conclusion

We have evaluated the nonaudit services to be provided to the audited entity, both individually and in the aggregate. We have determined that none of the nonaudit services are prohibited services or involve undertaking management responsibilities, as described in *Government Auditing Standards*. We evaluated and documented all significant threats and applied safeguards to eliminate or reduce any significant threats to an acceptable level. We have also evaluated the SKE of the individual(s) designated by the audited entity to oversee the nonaudit service(s) and determined that they are suitable in the circumstances. These evaluations are documented in this working paper. Based on the foregoing, we may provide the nonaudit services described herein and remain independent with respect to the audited entity.

Prepared by: Jane Doe

Date: February 14, 2013

Reviewed by: John Smythe

Date: February 15, 2013

**2011 Yellow Book Independence—Nonaudit Services Documentation Practice Aid Continuation Page-Section I**



Audited entity: \_\_\_\_\_

Period end: \_\_\_\_\_

**2011 Yellow Book Independence—Nonaudit Services Documentation Practice Aid Continuation Page-Section II**



Audited entity: \_\_\_\_\_

Period end: \_\_\_\_\_

**2011 Yellow Book Independence—Nonaudit Services Documentation Practice Aid Continuation Page-Section III**



Audited entity: \_\_\_\_\_

Period end: \_\_\_\_\_

**2011 Yellow Book Independence—Nonaudit Services Documentation Practice Aid Continuation Page-Section IV**



Audited entity: Small Town USA \_\_\_\_\_

Period end: December 31, 2012

1. On February 14, 2013, I discussed with Brandon that this engagement is limited to the financial statement preparation, preparation of journal entries, reconciliation of property tax rolls, and preparation of depreciation schedules, as previously outlined. I also indicated to Brandon that our firm, in its sole professional judgment, reserves the right to refuse to do any procedure or take any action that could be construed as making management decisions or performing management functions, including determining account codings and approving journal entries. Brandon indicated he understood the limitations of the engagement.