



Independence rules comparison

AICPA and *Government Auditing Standards*

February 2022

Member enrichment

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How do you meet the challenge of complying with two sets of *independence standards*?

It can be daunting to keep track of the requirements of different standard-setting bodies, so we put together this comparison to assist you in complying with both sets of [independence](#) requirements when both are applicable. However, it is still necessary to consult the specific requirements of the AICPA and the U.S. Government Accountability Office when evaluating *independence*.

Terms that are defined in the AICPA® Code of Professional Conduct (AICPA code) are italicized in this document. The first time a defined term or citation of the AICPA code appears in this document, it will be hyperlinked. This document does not hyperlink to terms defined in *Government Auditing Standards: 2018 Revision, Technical Update April 2021* (the Yellow Book).

Nonattest or nonaudit?

The AICPA code uses “nonattest” and the Yellow Book uses “nonaudit” to refer to services that are not deemed attest or audit services. The terms “nonattest” and “nonaudit” are interchangeable in this document.

How to use this comparison tool

The executive summary comparison gives a high-level overview of the *independence* requirements in the AICPA code and the Yellow Book. You'll also find detailed comparisons of the conceptual framework approach and nonattest services topics that are covered in both the AICPA code and the Yellow Book

The comparison tables have references to the *independence interpretations* in the AICPA code and to specific paragraphs within the Yellow Book. Keep in mind that the Yellow Book presents requirement and application guidance paragraphs in a particular way. For ease of use in this comparison, Yellow Book paragraph references begin with either an “R” (R3.27, for example) or an “A” (A3.26, for example) to indicate whether the paragraphs relate to requirements (R) or application guidance (A).

The application guidance provides further explanation of the requirements and guidance for applying those requirements. Paragraphs 2.02 through 2.10 of the Yellow Book discuss the auditor’s responsibilities related to the requirements and application guidance.

This isn't an exhaustive comparison as it doesn't compare all requirements of the AICPA code and the Yellow Book. For instance, there are nonattest services, such as hosting, advisory, corporate finance consulting, forensic accounting, and tax, that are specifically addressed only in the AICPA code. There are also relationships and circumstances other than nonattest services, such as [affiliate](#) relationships, employment relationships, and financial interests, that are addressed only in the AICPA code. As such, these topics are not discussed in the detailed comparisons within this document and are mentioned only broadly in the [“Nonattest services”](#) and [“Requirements related to relationships and circumstances other than nonattest services”](#) sections.

The AICPA code is the only authoritative source of AICPA *independence* requirements, and those requirements are described in the rules and *interpretations* of the AICPA code. Similarly, the Yellow Book is the only authoritative source of the U.S. Government Accountability Office independence requirements. As such, this document is an educational and reference tool for AICPA [members](#) and others interested in *independence*. The comparison is not itself authoritative guidance and often paraphrases the authoritative literature. It does not establish policy positions, standards, or preferred practices. The AICPA is not herein rendering any legal or ethical advice.

What other information is available?

In addition to this comparison, you might also reference the AICPA [Nonattest Services Toolkit](#) and the AICPA [Conceptual Framework Toolkit for Independence](#). These toolkits are nonauthoritative documents developed by AICPA Professional Ethics Division staff.

The AICPA [Nonattest Services Toolkit](#) helps you understand the AICPA *independence* requirements related to providing nonattest services and helps with evaluating *threats* to *independence* when providing these services. It includes, among other things, a checklist to aid with evaluating whether *independence* would be *impaired* when providing these nonattest services and can be used to satisfy the AICPA documentation requirements.

The AICPA [Conceptual Framework Toolkit for Independence](#) helps you implement the AICPA Conceptual Framework for Independence. It includes, among other things, a worksheet to help you apply the steps of the conceptual framework that could also be used to satisfy the framework's documentation requirements.

The [Yellow Book](#) also includes the following flowcharts at the end of chapter 3 that you may find helpful:

- [Figure 1](#), "Generally Accepted Government Auditing Standards Conceptual Framework for Independence," demonstrates the steps you would go through in evaluating any threat that is identified. If the threat is related to a nonaudit service that involves preparing accounting records and financial statements, you would also need to use figure 2.
- [Figure 2](#), "Independence Considerations for Preparing Accounting Records and Financial Statements," demonstrates the steps for evaluating nonaudit services that involve preparing accounting records and financial statements.

Executive summary

When are you required to comply with both sets of requirements?

It's important to remember that the AICPA code and the Yellow Book are from different standard setters. Thus, the requirements of each stand on their own. The Yellow Book incorporates by reference the AICPA's professional standards¹ that apply to financial audits, attestation engagements, and reviews of financial statements but does not incorporate ethical requirements of the AICPA code, including *independence*.

The AICPA's professional standards (such as auditing standards as promulgated by the Auditing Standards Board) require compliance with the *independence* requirements in the AICPA code regardless of whether you are an AICPA member. Therefore, when an [attest engagement](#) is subject to the Yellow Book, you must comply with the *independence* requirements in the Yellow Book as well as the AICPA code.²

The key differences

There are several key differences between the *independence* requirements in the AICPA code and the independence requirements in the Yellow Book. These are summarized in the following sections. Additional information related to the conceptual framework and certain nonattest services topics is provided in the ["Detailed comparisons"](#) section of this document.

Conceptual framework

The AICPA code and the Yellow Book establish conceptual frameworks that auditors use to identify, evaluate, and apply [safeguards](#) to address *threats to independence*. These frameworks share similar characteristics.

The AICPA code and the Yellow Book are consistent in their documentation requirements related to using their conceptual frameworks. Both require the documentation of identified *threats to independence* and *safeguards* applied to reduce *threats* to an [acceptable level](#) when you determine that those *threats*, without *safeguards*, are not at an *acceptable level*.

There is a slight but important difference in the requirement for using the respective conceptual frameworks. Under the AICPA code, if a relationship or circumstance is not specifically addressed, auditors should use the conceptual framework approach. Under the Yellow Book, unless a relationship or circumstance is specifically prohibited, auditors should use the conceptual framework approach.

The ["Conceptual framework"](#) section in this document outlines, in detail, those requirements under the AICPA code and the Yellow Book.

Nonattest services

Under both sets of standards, you should comply with the respective general requirements, which are consistent with one another, when providing nonattest services that are not prohibited.

The AICPA code and the Yellow Book prohibit some of the same nonattest services for [attest clients](#); however, the AICPA code prohibits certain nonattest services (for example, hosting services) that the Yellow Book does not specifically reference. Also, the AICPA code requires specific considerations and the application of specific *safeguards* that are not required by the Yellow Book when providing certain permitted nonattest services.

¹ For financial audits and attestation engagements, the Yellow Book incorporates by reference AICPA Statements on Auditing Standards and Statements on Standards for Attestation Engagements. For reviews of financial statements, the Yellow Book incorporates by reference AR-C section 90, *Review of Financial Statements* (paragraph 2.13 of the [Yellow Book](#)).

² When a member is performing a performance audit under the Yellow Book and not under the AICPA Statements on Auditing Standards and Statements on Standards for Attestation Engagements, only the Yellow Book independence requirements would apply to the engagement.

In comparison, the Yellow Book has additional requirements related to preparing accounting records and financial statements. The [“Bookkeeping, payroll, and other disbursement services and preparing accounting records and financial statements”](#) section of this document discusses these additional requirements in detail.

The [“Detailed comparison”](#) section of this document shows the requirements of the AICPA code and the Yellow Book for nonattest services that both sets of standards address. For additional nonattest services addressed only in the AICPA code, refer to the [“Nonattest Services”](#) subtopic (ET sec. 1.295)³ of the AICPA code.

Requirements related to relationships and circumstances other than nonattest services

The AICPA code specifically addresses *affiliate* relationships, employment relationships, and financial interests, among other relationships and circumstances, as detailed in the *independence interpretations* related to those topics.⁴

The Yellow Book does not address similar relationships and circumstances, so you would need to use the conceptual framework to evaluate these relationships and circumstances.

Breach of the independence requirements

Another key difference between the *independence* requirements that practitioners may use, but one that comes up less frequently, relates to breaches of the *independence* requirements. The [“Independence breach”](#) section in this document goes over those requirements under the AICPA code and the Yellow Book.

³ You can find all ET sections in AICPA *Professional Standards*.

⁴ The [“Interpretations Under the Independence Rule”](#) subtopic includes all *independence interpretations* in the AICPA code. Practitioners should familiarize themselves with these *interpretations* as there are numerous topics addressed within that subtopic that are not discussed in detail within this document.

Detailed comparisons

The sections that follow include overviews and side-by-side comparisons of the conceptual framework approaches and nonattest services topics that are covered in both the Yellow Book and the AICPA code.

In the detailed comparison tables, we use “R” to indicate requirements and “A” to indicate application guidance included in the Yellow Book, for example, “R3.27” and “A3.25.” This convention is specific to the comparison tables and is not a referencing convention of the Yellow Book.

Conceptual framework

Application of the conceptual framework

In the absence of an *interpretation* of the “[Independence Rule](#)” (ET sec. 1.200.001) of the AICPA code that addresses a particular relationship or circumstance, a *member* should apply the “[Conceptual Framework for Independence](#)” interpretation (ET sec. 1.210.010).⁵

In comparison, the Yellow Book requires the application of its conceptual framework for all relationships and circumstances that are not specifically prohibited. Prohibited relationships and circumstances in the Yellow Book include certain nonaudit services as outlined in the sections that follow.

When both the AICPA code and the Yellow Book *independence* requirements apply to an *attest engagement*, you should evaluate independence under the Yellow Book’s requirements, whether or not the relationship or circumstance is addressed in the AICPA code.

The AICPA code may contain information with respect to the evaluation of threats and application of safeguards that could assist the practitioner when evaluating independence under the Yellow Book’s conceptual framework.

For example, the AICPA code permits appraisal, valuation, and actuarial services for an *attest client* as long as the general requirements are met and

- the services do not involve a significant degree of subjectivity or
- the results of the services are not material to the *attest client’s* [financial statements](#).

Under the Yellow Book, the practitioner would also need to evaluate such services under the Yellow Book conceptual framework before concluding on the permissibility of the service.

For those relationships and circumstances that practitioners determine create significant threats to independence under the Yellow Book, the Yellow Book requires the application of safeguards to eliminate or reduce the threats to an acceptable level. If the threats cannot be eliminated or reduced to an acceptable level by application of such safeguards under the Yellow Book, you should conclude that independence is impaired. This applies regardless of whether the AICPA code permits the service.

What is a safeguard?

The AICPA code considers *safeguards* to be actions or other measures that may eliminate or reduce a threat to an *acceptable level*. Those actions or other measures can be:

- a. created by the profession, legislation or regulation;
- b. implemented by the *attest client*; or
- c. implemented by the [firm](#).

The Yellow Book describes safeguards differently – they are actions or other measures, individually or in combination, that auditors and audit organizations take to reduce or eliminate threats.

⁵ ET sec. [1.200.005.01](#)

When should I evaluate independence?

Before accepting an *attest engagement* or engaging in a nonattest service for an *attest client*, you should evaluate *threats* and ensure that any identified *threats* are at an acceptable level. You may also need to reevaluate *threats to independence* during the *period of the professional engagement*.

Although not specifically stated in the AICPA code, the AICPA *Nonattest Services Toolkit* explains that you should be alert to changes to your engagement throughout the *period of the professional engagement* that could require you to reevaluate *independence*. Examples of some events that could require reevaluation include changes in the scope of nonaudit services (scope creep), changes in *client* personnel, or changes to identified *threats to independence*, whether newly identified *threats* or changes in previously identified *threats* due to changes to relationships or circumstances (business, financial and so on).

In comparison, the Yellow Book specifically requires auditors to reevaluate threats to independence, including any safeguards applied, whenever the audit organization or the auditors become aware of new information or changes in facts and circumstances that could affect whether a threat has been eliminated or reduced to an *acceptable level*.

Comparison table

As demonstrated in this table, the Yellow Book's conceptual framework shares many characteristics with the AICPA's conceptual framework.

AICPA code	Yellow Book
The AICPA's risk-based approach involves the following steps:	The Yellow Book states that auditors should apply the conceptual framework at the audit organization, engagement team, and individual auditor levels to
1. Identify <i>threats</i>. The relationships or circumstances that a <i>member</i> encounters in various engagements and work assignments will often create different <i>threats</i> to complying with the rules. When a <i>member</i> encounters a relationship or circumstance that is not specifically addressed by a rule or an <i>interpretation</i> , the <i>member</i> should use the conceptual framework approach to determine whether the relationship or circumstance creates one or more <i>threats</i> . The existence of a <i>threat</i> does not mean that the <i>member</i> is in violation of the rules; however, the <i>member</i> should evaluate the significance of the <i>threat</i> . Categories of <i>threats</i> include adverse interest, advocacy, familiarity, management participation, self-interest, self-review and undue influence.	1. Identify <i>threats to independence</i>. Facts and circumstances that create threats to independence can result from events such as the start of a new engagement, assignment of new personnel to an ongoing engagement, and acceptance of a nonaudit service for an audited entity. Categories of threats include self-interest, self-review, bias, familiarity, undue influence, management participation and structural.

2. **Evaluate the significance of a *threat*.** 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.

3. **Identify and apply *safeguards*.** 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.

(ET sec. 1.210.010)

2. **Evaluate the significance of the threats identified, both individually and in the aggregate.** Threats to independence are evaluated both individually and in the aggregate as threats can have a cumulative effect on auditors' independence. When evaluating threats, an acceptable level is a level at which a reasonable and informed third party would likely conclude that the audit organization or auditor is independent. The concept of a reasonable and informed third party is a test that involves an evaluation by a hypothetical person that possesses skills, knowledge, and experience to objectively evaluate the appropriateness of the auditor's judgments and conclusions. This evaluation entails weighing all the relevant facts and circumstances, including any safeguards applied that the auditor knows, or could reasonably be expected to know, at the time that the evaluation is made.

3. **Apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level.** Safeguards are actions or other measures, individually or in combination, that auditors and audit organizations take that effectively eliminate threats to independence or reduce them to an acceptable level. Safeguards vary depending on the facts and circumstances. If no safeguards have been effectively applied to eliminate an unacceptable threat or reduce it to an acceptable level, independence would be considered impaired. When auditors conclude that independence of the engagement team or audit organization is impaired, auditors should decline to accept an engagement or should terminate an engagement in progress (except in circumstances discussed in paragraphs 3.25 or 3.84).

([Yellow Book](#) R3.27, R3.30; A3.36, A3.45–A3.46, A3.49, A3.59–3.60)

AICPA code

Yellow Book

Auditors should reevaluate threats to independence, including any safeguards applied, whenever the audit organization or the auditors become aware of new information or changes in facts and circumstances that could affect whether a threat has been eliminated or reduced to an acceptable level.

([Yellow Book](#) R3.28)

Provisions of nonattest services – General

As discussed in the “[Conceptual framework](#)” section, the AICPA code requires you to use the conceptual framework only if the nonattest service is not covered in one of the *interpretations* of the “Nonattest Services” subtopic. In comparison, if a nonaudit service is not

expressly prohibited in the Yellow Book, the Yellow Book requires you to evaluate that service using the conceptual framework.

Comparison table

This table compares the general provisions regarding nonattest services in the AICPA code and the Yellow Book.

AICPA code	Yellow Book
<p>The <i>interpretations</i> under the “Nonattest Services” subtopic provide examples of specific nonattest services that would and would not <i>impair independence</i>. The examples of nonattest services that are identified as not <i>impairing independence</i> presume that the <i>safeguards</i> contained in the “General Requirements for Performing Nonattest Services” interpretation [ET 1.295.040] have been met and are not intended to be all-inclusive of the types of nonattest services performed by <i>members</i>.</p> <p>(ET sec. 1.295)</p> <p>For services not addressed by an <i>interpretation</i>, <i>members</i> should use the AICPA’s Conceptual Framework for Independence to evaluate <i>threats to independence</i>.</p> <p>(ET sec. 1.210.010)</p>	<p>Auditors may be able to provide nonaudit services in the broad areas indicated in paragraphs 3.87–3.106 without impairing independence if:</p> <ol style="list-style-type: none">the nonaudit services are not expressly prohibited by Yellow Book requirements,the auditors have determined that the requirements for performing nonaudit services in paragraphs 3.73–3.78 and paragraph 3.83 have been met, andany significant threats to independence have been eliminated or reduced to an acceptable level through the application of safeguards. <p>The conceptual framework enables auditors to evaluate independence given the facts and circumstances of individual services that are not specifically prohibited.</p> <p>(Yellow Book A3.86)</p>

Cumulative effect of providing nonattest services

The AICPA code and Yellow Book both require that the auditor consider *threats to independence* individually and in the aggregate, including the cumulative effect of providing multiple nonattest services. The AICPA [Nonattest Services Toolkit](#) can be used to consider the cumulative effect of providing nonattest services on *independence* under the AICPA code.

The Yellow Book provides that, for consideration of auditor independence, offices or units of an audit

organization, or related or affiliated entities under common control, are not differentiated from one another. However, the AICPA code does not require you to consider the possible *threats to independence* when other [network firms](#) within the *firm's network* are providing nonattest services.

Comparison table

This table compares the requirements in the AICPA code related to evaluating *threats* in the aggregate to the requirements and application guidance in the Yellow Book.

AICPA code	Yellow Book
<p>Conceptual framework approach to independence Many different relationships or circumstances (or combinations of relationships or circumstances) can create <i>threats to compliance</i> with the “Independence Rule.” (ET sec. 1.210.010.10)</p> <p>The nonauthoritative Conceptual Framework Toolkit for Independence also explains that <i>members</i> should evaluate identified <i>threats</i> both individually and in the aggregate because <i>threats</i> can have a cumulative effect on a <i>member's independence</i>.</p> <p>Nonattest services The <i>interpretations</i> of the “Nonattest Services” subtopic under the “Independence Rule” include various examples of nonattest services that individually would not <i>impair independence</i> because the <i>safeguards</i> in the “General Requirements for Performing Nonattest Services” interpretation reduce the self-review and management participation <i>threats</i> to an <i>acceptable level</i>. However, performing multiple nonattest services can increase the significance of these <i>threats</i> as well as other <i>threats to independence</i>.</p>	<p>Conceptual framework approach to independence <i>Threats to independence</i> are evaluated both individually and in the aggregate as <i>threats</i> can have a cumulative effect on an auditor's independence. (Yellow Book A3.45)</p> <p>For consideration of auditor independence, offices or units of an audit organization, or related or affiliated entities under common control, are not differentiated from one another. Consequently, for the purposes of evaluating independence using the conceptual framework, an audit organization that includes multiple offices or units, or includes multiple entities related or affiliated through common control, is considered to be one audit organization. Common ownership may also affect independence in appearance regardless of the level of control. (Yellow Book A3.35)</p> <p>Nonaudit services Before auditors agree to provide a nonaudit service to an audited entity, they should determine whether providing such a service would create a threat to independence, either by itself or in aggregate with other nonaudit services provided, with respect to any Yellow Book engagement they conduct. (Yellow Book R3.64)</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.

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*.

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*.

(ET sec. [1.295.020](#))

General requirements

The AICPA code and the Yellow Book both indicate auditors should comply with the respective general requirements before agreeing to perform for an *attest client* any nonattest service that is not prohibited.

In certain *interpretations* within the “Nonattest Services” subtopic of the AICPA code, compliance with the [“General Requirements for Performing Nonattest Services”](#) interpretation will reduce *threats* to an *acceptable level*.

For example, this is true when providing executive or employee recruiting services to an *attest client* under the [“Executive or Employee Recruiting”](#) interpretation (ET sec. 1.295.135). For other *interpretations*, you will need to meet the general requirements in addition to other requirements included in the specific *interpretation*.

However, under the Yellow Book, in addition to complying with the general requirements when performing nonaudit services, practitioners should also apply the Yellow Book

conceptual framework to evaluate whether the threats are significant and apply safeguards, as necessary, to eliminate or reduce threats to an acceptable level.

If management does not take responsibility for the nonattest service or does not designate an individual with suitable skill, knowledge, or experience to oversee the nonattest service, both sets of requirements explain that *independence* will be *impaired*.

As highlighted further in the [“Documentation”](#) section, only the Yellow Book requires auditors to document their assessment of whether the individual overseeing the nonattest services possesses suitable skill, knowledge or experience.

Comparison table

As demonstrated in this table, the “General Requirements for Performing Nonattest Services” interpretation of the AICPA code and the general requirements in the Yellow Book are consistent with one another.

AICPA code	Yellow Book
<p>When a <i>member</i> performs a nonattest service for an <i>attest client</i>, <i>threats</i> to the <i>member’s</i> compliance with the “Independence Rule” [1.200.001] may exist. Unless an <i>interpretation</i> of the “Nonattest Services” subtopic [1.295] under the “Independence Rule” states otherwise, <i>threats</i> would be at an <i>acceptable level</i>, and <i>independence</i> would not be <i>impaired</i>, when all the following <i>safeguards</i> are met:</p> <ol style="list-style-type: none">a. The <i>member</i> determines that the <i>attest client</i> and its management agree to<ol style="list-style-type: none">i. assume all management responsibilities as described in the “Management Responsibilities” interpretation [1.295.030].	<p>Before auditors agree to provide nonaudit services to an audited entity that the audited entity’s management requested and that could create a threat to independence, either by themselves or in aggregate with other nonaudit services provided, auditors should determine that the audited entity has designated an individual who possesses suitable skill, knowledge, or experience and that the individual understands the services to be provided sufficiently to oversee them. In cases where the audited entity is unable or unwilling to assume these responsibilities, auditors should conclude that the provision of the services is an impairment of independence.</p>

- ii. 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.
 - iii. evaluate the adequacy and results of the services performed.
 - iv. accept responsibility for the results of the services.
- b. The *member* does not assume management responsibilities (see the “Management Responsibilities” interpretation) when providing nonattest services and the *member* is satisfied that the *attest client* and its management will:
- i. be able to meet all of the criteria delineated in item (a),
 - ii. make an informed judgment on the results of the *member’s* nonattest services, and
 - iii. accept responsibility for making the significant judgments and decisions that are the proper responsibility of management.
- 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*.
- c. 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:
- i. objectives of the engagement,
 - ii. services to be performed,
 - iii. *attest client’s* acceptance of its responsibilities,
 - iv. *member’s* responsibilities, and
 - v. any limitations of the engagement.

Auditors should document consideration of management’s ability to effectively oversee nonaudit services to be provided and obtain 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 possess suitable skill, knowledge or experience
 - c. Evaluates the adequacy and results of the services provided
 - d. Accepts responsibility for the results of the services
- ([Yellow Book](#) R3.73–3.76)

In connection with nonaudit services, auditors should establish and document their understanding with the audited entity’s management or those charged with governance, as appropriate, regarding the following:

- a. Objectives of the nonaudit services
 - b. Services to be performed
 - c. Audited entity’s acceptance of its responsibilities as discussed in paragraph 3.76
 - d. Auditors’ responsibilities
 - e. Any limitations of the nonaudit service
- ([Yellow Book](#) R3.77)

Routine activities performed by auditors that relate directly to conducting an engagement are not considered nonaudit services under the Yellow Book. Examples of routine activities include:

- a. providing advice to the audited entity on an accounting matter as an ancillary part of the overall financial audit.
- b. providing advice to the audited entity on routine business matters.
- c. educating the audited entity on matters within the technical expertise of the auditors.
- d. providing information to the audited entity that is readily available to the auditors, such as best practices and benchmarking studies.

([Yellow Book](#) A3.70–3.71)

The above *safeguards* and the “Documentation Requirements When Providing Nonattest Services” interpretation [1.295.050] 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 of the “Independence Rule.”

(ET sec. [1.295.040](#))

Management responsibilities

The “[Management Responsibilities](#)” interpretation and other *independence interpretations* in the AICPA code describe activities that are considered management responsibilities and create management participation *threats*.

For instance, under the “[Internal Audit](#)” interpretation (ET sec. 1.295.150), *independence* is considered to be *impaired* if a *member* 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. In this scenario, the management participation *threat* would be so significant that no *safeguards* could reduce the *threat* to an *acceptable level*.

Similarly, under the Yellow Book, this activity impairs independence because it is an example of “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 engagement” (item [h] in the following comparison table).

Comparison table

As demonstrated in this table, the descriptions of activities that are considered management responsibilities in the AICPA code and the Yellow Book are consistent. Performing any of these activities will *impair independence*.

AICPA code	Yellow Book
<p>If a <i>member</i> were to assume a management responsibility for an <i>attest client</i>, the management participation <i>threat</i> would be so significant that no <i>safeguards</i> could reduce the <i>threat</i> to an <i>acceptable level</i> and <i>independence</i> would be <i>impaired</i>. 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, <i>impair independence</i> if performed for an <i>attest client</i> include the following:</p> <ol style="list-style-type: none">Setting policy or strategic direction for the <i>attest client</i>Directing or accepting responsibility for actions of the <i>attest client’s</i> employees except to the extent permitted when using internal auditors to provide assistance for services performed under auditing or attestation standards	<p>If auditors 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 a specific activity is a management responsibility depends on the facts and circumstances. Auditors should conclude that management responsibilities that the auditors perform for an audited entity are impairments to independence. The following are considered management responsibilities:</p> <ol style="list-style-type: none">Setting policies and strategic direction for the audited entityDirecting and accepting responsibility for the actions of the audited entity’s employees in the performance of their routine, recurring activitiesHaving custody of an audited entity’s assetsReporting to those charged with governance on behalf of management

AICPA code

- c. Authorizing, executing, or consummating transactions or otherwise exercising authority on behalf of an *attest client* or having the authority to do so
- d. Preparing *source documents*, in electronic or other form, that evidence the occurrence of a transaction
- e. Having custody of an *attest client's* assets
- f. Deciding which recommendations of the *member* or other third parties to implement or prioritize
- g. Reporting to *those charged with governance* on behalf of management
- h. Serving as an *attest client's* stock transfer or escrow agent, registrar, general counsel or equivalent
- i. Accepting responsibility for the management of an *attest client's* project
- j. Accepting responsibility for the preparation and fair presentation of the *attest client's financial statements* in accordance with the applicable financial reporting framework
- k. Accepting responsibility for designing, implementing or maintaining internal control
- l. Performing ongoing evaluations of the *attest client's* internal control as part of its monitoring activities
(ET sec. [1.295.030](#))

Yellow Book

- e. Deciding which of the auditor's or outside third party's recommendations to implement
- f. Accepting responsibility for the management of an audited entity's project
- g. Accepting responsibility for designing, implementing, or maintaining internal control
- h. 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 engagement
- i. Developing an audited entity's performance measurement system when that system is material or significant to the subject matter of the engagement
- j. Serving as a voting member of an audited entity's management committee or board of directors
([Yellow Book](#) R3.78, A3.80–3.82)

Documentation requirements

The AICPA code and the Yellow Book have consistent documentation requirements when their conceptual frameworks are used. Both require the documentation of identified *threats* to *independence* and *safeguards* applied to reduce *threats* to an *acceptable level* when you determine that those *threats*, without *safeguards*, are not at an *acceptable level*.

Specifically, the general requirements state that when performing nonattest services under either the AICPA code or the Yellow Book, you should document specific aspects (see comparison table below) of a nonattest engagement for an *attest client*. Included in those aspects is management’s agreement that an individual with suitable skill, knowledge, or experience will oversee that nonattest service. Though both the AICPA code and the Yellow Book require you to assess whether the individual overseeing the nonattest services possesses suitable skill, knowledge or experience, only the Yellow

Book requires this assessment to be documented.

In addition, the Yellow Book specifically requires documentation of the evaluation and determination of independence related to the accounting and financial statement preparation services as described in the [“Bookkeeping, payroll, and other disbursement services and preparing accounting records and financial statements”](#) section of this document.

You can use the AICPA [Nonattest Services Toolkit](#) to satisfy the AICPA code documentation requirements when providing nonattest services (see [“What other information is available?”](#) in this document).

Comparison table

This table demonstrates the specific similarities and differences of the documentation requirements in the AICPA and the Yellow Book as summarized above.

AICPA code	Yellow Book
<p>Conceptual framework for independence</p> <p><u>Threats and safeguards applied</u></p> <p>In cases where identified <i>threats</i> to <i>independence</i> are not at an <i>acceptable level</i>, thereby requiring the application of <i>safeguards</i>, the <i>threats</i> identified and the <i>safeguards</i> applied to eliminate the <i>threats</i> or reduce them to an <i>acceptable level</i> should be documented.</p> <p>(ET sec. 1.210.010.09)</p> <p>Nonattest services</p> <p><u>Understanding with client</u></p> <p>Before performing nonattest services, the <i>member</i> should establish and document in writing his or her understanding with the <i>attest client</i> (board of directors, audit committee or management, as appropriate in the circumstances) regarding the following:</p> <ol style="list-style-type: none"> a. Objectives of the engagement b. Services to be performed 	<p>Conceptual framework approach to independence</p> <p><u>Threats and safeguards applied</u></p> <p>In cases where auditors determine that threats to independence require the application of safeguards, auditors should document the threats identified and the safeguards applied to eliminate the threats or reduce them to an acceptable level.</p> <p>(Yellow Book R3.33, R3.107a)</p> <p>Nonaudit services</p> <p>Understanding with audited entity</p> <p>In connection with nonaudit services, auditors 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"> a. Objectives of the nonaudit services b. Service to be performed

AICPA code	Yellow Book
<p>c. <i>Client's</i> acceptance of its responsibilities</p> <p>d. <i>Member's</i> responsibilities</p> <p>e. Any limitations of the engagement (ET sec. 1.295.050, 1.295.040)</p> <p><u>Services provided during the period covered by the financial statements</u></p> <p>For nonattest services provided during the period covered by the <i>financial statements</i>, the <i>member</i> should document in writing that the requirements of the "General Requirements for Performing Nonattest Services" interpretation were met prior to the <i>period of the professional engagement</i>. (ET sec. 1.295.050)</p> <p><u>Failure to document</u></p> <p>A failure to prepare the required documentation (within the "Nonattest Services" subtopic) would not <i>impair independence</i> but would be considered a violation of the "Compliance With Standards Rule," provided the <i>member</i> did establish the understanding with the <i>client</i>. (ET sec. 1.295.050)</p>	<p>c. Audited entity's acceptance of its responsibilities</p> <p>d. The auditors' responsibilities</p> <p>e. Any limitations of the nonaudit service (Yellow Book R3.77, R3.107d)</p> <p><u>Management's skills, knowledge or experience</u></p> <p>Auditors should document consideration of management's ability to effectively oversee nonaudit services to be provided. (Yellow Book R3.74, R3.107c)</p> <p><u>Preparing accounting records and financial statements</u></p> <p>Preparation of financial statements in their entirety from a client-provided trial balance or underlying accounting records creates significant threats to auditors' independence, and auditors should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level in accordance with paragraph 3.33 or decline to provide the services.</p> <p>Auditors should also identify as threats to independence any services related to preparing accounting records and financial statements other than those defined as impairments to independence in paragraph 3.87 and significant threats in paragraph 3.88, evaluate the significance of such threats, and document that evaluation. These services include:</p> <ol style="list-style-type: none"> recording transactions for which management has determined or approved the appropriate account classification or posting coded transactions to an audited entity's general ledger. preparing certain line items or sections of the financial statements based on information in the trial balance. posting entries that an audited entity's management has approved to the entity's trial balance. preparing account reconciliations that identify reconciling items for the audited entity management's evaluation. <p>(Yellow Book R3.88-3.90, R3.107e)</p>

AICPA code

Yellow Book

Failure to document (not exclusive to nonaudit services)

While insufficient documentation of an auditor's compliance with the independence standard does not impair independence, auditors should prepare appropriate documentation under the Yellow Book quality control and assurance requirements.

([Yellow Book](#) R3.107)

Bookkeeping, payroll and other disbursement services and preparing accounting records and financial statements

The AICPA code is generally consistent with the Yellow Book when it comes to the type of accounting or financial statement preparation services that are prohibited. As well, both require you to apply the general requirements to services that are not prohibited. However, there is a significant difference between the two sets of requirements in how *independence* is evaluated and determined.

Under the AICPA code, you should apply the [“General Requirements for Performing Nonattest Services”](#) interpretation when providing services related to preparing accounting records and financial statements that are not specifically prohibited. When those general requirements are applied, the AICPA code considers *threats* to be at an *acceptable level* and *independence* is not *impaired*.

The Yellow Book concludes that preparing financial statements in their entirety⁶ from a client-provided trial balance or underlying accounting records creates significant threats to independence. Similar to the AICPA code, you should meet the general requirements when providing this service.

However, unlike the AICPA code, under the Yellow Book those general requirements do not reduce threats to an acceptable level. The Yellow Book requires you to apply and document safeguards to eliminate or reduce the threats to an acceptable level or to decline providing the services if unable to do so.

As explained in [“What is a safeguard?”](#) in this document, the Yellow Book considers only actions taken by the auditor or audit organization to be safeguards, whereas the AICPA code also considers requirements created by the profession, legislation, or regulation, and actions taken by the *attest client* to be *safeguards*.

The Yellow Book provides the following examples of safeguards:⁷

- Not including individuals who provided the nonaudit service as engagement team members
- Having another auditor, not associated with the engagement, review the engagement and nonaudit work as appropriate
- Engaging another audit organization to evaluate the results of the nonaudit service
- 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

For any permitted service related to preparing accounting records and financial statements other than preparing financial statements in their entirety, you should meet the general requirements and identify and document threats resulting from providing that service. You should then evaluate those threats and apply safeguards, as necessary, using the conceptual framework approach.

Comparison table

This table compares the requirements in the AICPA code and the Yellow Book related to bookkeeping, payroll and other disbursement services and preparing accounting records and *financial statements*.

⁶ The AICPA offers CPE courses and webinars related to the Yellow Book requirements, including guidance on *independence* requirements and what may be considered “preparing financial statements in their entirety.” See webinars listed in the Government Audit Quality Center (GAQC) resource center discussed in the [“What other information is available?”](#) section of this document. Also, the *Journal of Accountancy* published an article in 2019 titled [“Yellow Book revisions update independence guidance”](#) that discusses what may be considered “preparing financial statements in their entirety” as well as considerations related to evaluating *threats* related to preparing accounting records and *financial statements* (other than preparing *financial statements* in their entirety).

⁷ [Yellow Book](#) 3.69

Independence would be considered to be *impaired* if the *member*:

- a. 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.
- b. authorizes or approves transactions.
- c. prepares *source documents*.
- d. makes changes to *source documents* without the *attest client's* approval.
- e. 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."
- f. accepts responsibility to sign or cosign an *attest client's* checks, even if only in emergency situations.
- g. 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*.
- h. approves vendor invoices for payment.

Independence would not be considered to be *impaired* when the "General Requirements for Performing Nonattest Services" interpretation is applied if the *member*:

- a. records transactions to an *attest client's* general ledger when management has determined or approved the account classifications for the transaction.
- b. posts *client*-coded transactions to an *attest client's* general ledger.
- c. prepares *financial statements* based on information in the *attest client's* trial balance.
- d. posts *client*-approved journal or other entries to an *attest client's* trial balance.

Independence would be considered to be impaired if the auditor:

- a. determines or changes journal entries, account codes or classifications for transactions, or other accounting records for the entity without obtaining management's approval.
- b. authorizes or approves the entity's transactions.
- c. prepares or makes changes to source documents without management approval.

([Yellow Book](#) R3.87)

Auditors should conclude that preparing financial statements in their entirety from a client-provided trial balance or underlying accounting records creates significant threats to auditors' independence and should document the threats and safeguards applied to eliminate and reduce the threats to an acceptable level or decline to provide the services.

([Yellow Book](#) R3.88)

Auditors should identify as threats any services related to preparing accounting records and financial statements, other than those defined as impairments to independence in paragraph 3.87 and significant threats in paragraph 3.88. These services include:

- a. recording transactions for which management has determined or approved the appropriate account classification or posting coded transactions to an audited entity's general ledger.
- b. preparing certain line items or sections of the financial statements based on information in the trial balance.
- c. posting entries that have been approved by an audited entity's management to the entity's trial balance.
- d. preparing account reconciliations that identify reconciling items for the audited entity management's evaluation.

- e. 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*.
- f. generates unsigned checks using *source documents* or other records provided and approved by the *attest client*.
- g. processes an *attest client's* payroll using payroll time records that the *attest client* has provided and approved.
- h. 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.
- i. prepares a reconciliation (for example, bank and accounts receivable) that identifies reconciling items for the *client's* evaluation.

(ET sec. [1.295.120](#))

Auditors should evaluate the significance of threats to independence created by providing any of the services discussed above and should document the evaluation of the significance of such threats.

([Yellow Book](#) R3.89–3.90)

Benefit plan administration

The AICPA code and the Yellow Book are consistent on which services are prohibited when it comes to benefit plan administration.

The AICPA code provides examples of permitted services when you apply the *safeguards* from the “General Requirements for Performing Nonattest Services” interpretation. The Yellow Book requires you

to apply general requirements and evaluate the service using the conceptual framework if the nonattest service is not expressly prohibited.

Comparison table

This table compares the requirements related to benefit plan administration in the AICPA code and the Yellow Book.

AICPA code	Yellow Book
<p><i>Independence</i> would be considered to be <i>impaired</i> if the <i>member</i>:</p> <ul style="list-style-type: none"> a. makes policy decisions on behalf of management. b. interprets the provisions in a plan document for a plan participant on behalf of management without first obtaining management’s concurrence. c. makes disbursements on behalf of the plan. d. has custody of the plan’s assets. e. serves in a fiduciary capacity, as defined by ERISA. <p><i>Independence</i> would not be considered to be <i>impaired</i> when the “General Requirements for Performing Nonattest Services” interpretation is applied if the <i>member</i>:</p> <ul style="list-style-type: none"> a. communicates summary plan data to a plan trustee. b. advises management regarding the application and impact of provisions in a plan document. c. processes certain transactions that have been initiated by plan participations or approved by the plan administrators using the <i>member’s</i> 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 <i>loans</i>. 	<p>Independence would be considered to be impaired if the auditor:</p> <ul style="list-style-type: none"> a. makes policy decisions on behalf of audited entity management. b. when dealing with plan participants, interprets provisions of the plan document on behalf of management without first obtaining management’s concurrence. c. makes disbursements on behalf of the plan. d. has custody of a plan’s assets. e. serves a plan as a fiduciary, as defined by the Employment Retirement Income Security Act of 1974 (ERISA). <p>(Yellow Book R3.106b)</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>

d. prepares account valuations for plan participants using data collected through the *member's* electronic or other media.

e. prepares and transmits participant statements to plan participants based on data collected through the *member's* electronic or other media.

(ET sec. [1.295.115](#))

Investment advisory or management services

The AICPA code and the Yellow Book are consistent on which services are prohibited related to investment advisory or management services.

The AICPA code provides examples of permitted services when you apply the *safeguards* from the “General Requirements for Performing Nonattest Services” interpretation. The Yellow Book requires you

to apply general requirements and evaluate the service using the conceptual framework if the nonattest service is not expressly prohibited.

Comparison table

This table compares the requirements related to investment advisory or management services in the AICPA code and the Yellow Book.

AICPA code	Yellow Book
<p><i>Independence would be considered to be impaired if the member:</i></p> <ul style="list-style-type: none"> a. makes investment decisions on behalf of management or otherwise has discretionary authority over an <i>attest client's</i> investments. b. executes a transaction to buy or sell an <i>attest client's</i> investments. c. has custody of an <i>attest client's</i> assets, such as taking temporary possession of securities purchased by an <i>attest client</i>. <p><i>Independence would not be considered to be impaired when the “General Requirements for Performing Nonattest Services” interpretation is applied if the member:</i></p> <ul style="list-style-type: none"> a. recommends the <i>attest client's</i> allocation of funds among various investments or asset classes based upon the <i>attest client's</i> desired rate of return, risk tolerance or other parameters. b. performs recordkeeping and reporting of the <i>attest client's</i> portfolio balances, including providing the <i>attest client</i> with a comparative analysis of the <i>attest client's</i> investments to third-party benchmarks. c. evaluates the manner in which an <i>attest client's</i> portfolio is being managed by investment account managers, including assessing whether the managers are: <ul style="list-style-type: none"> i. following the guidelines of the <i>attest client's</i> investment policy statement. 	<p>Independence would be considered to be impaired if the auditor:</p> <ul style="list-style-type: none"> a. makes investment decisions on behalf of audited entity management or otherwise has discretionary authority over an audited entity's investments. b. executes a transaction to buy or sell an audited entity's investment. c. has custody of an audited entity's assets, such as taking temporary possession of securities. <p>(Yellow Book R3.106e)</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>

- ii. meeting the *attest client's* investment objectives.
- iii. conforming to the *attest client's* stated investment parameters or risk tolerance.
- d. 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.

(ET sec. [1.295.155](#))

Appraisal, valuation and actuarial services

The AICPA code and the Yellow Book are consistent on which services are prohibited related to appraisal, valuation, and actuarial services.

The AICPA code provides examples of permitted services when you apply the *safeguards* from the “General Requirements for Performing Nonattest Services” interpretation. The Yellow Book requires you

to apply general requirements and evaluate the service using the conceptual framework if the nonattest service is not expressly prohibited.

Comparison table

This table compares the requirements related to appraisal, valuation and actuarial services in the AICPA code and the Yellow Book.

AICPA code	Yellow Book
<p><i>Independence would be impaired</i> if a member performs an appraisal, valuation or actuarial service for an <i>attest client</i> when:</p> <ol style="list-style-type: none"> the services involve a significant degree of subjectivity, and the results of the service, individually or when combined with other valuation, appraisal or actuarial services, are material to the <i>attest client's financial statements</i>. <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 <i>financial statements</i>, <i>independence</i> would be <i>impaired</i>.</p> <p>An actuarial valuation of a <i>client's</i> pension or postemployment benefit liabilities generally does not require a significant degree of subjectivity and, therefore, would not <i>impair independence</i>. 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 <i>impair independence</i>.</p>	<p>Independence would be impaired if an auditor provides appraisal, valuation, or actuarial services to an audited entity when:</p> <ol style="list-style-type: none"> the service involves a significant degree of subjectivity, and the results of the service, individually or when combined with other valuation, appraisal or actuarial services, are material to the audited entity's financial statements or other information on which the audit organization is reporting. <p>(Yellow Book R3.104)</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>

In performing such services that are permitted under the “Appraisal, Valuation, and Actuarial Services” interpretation [ET sec. 1.295.110], 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. The *member* must also meet all requirements of the “General Requirements for Performing Nonattest Services” interpretation.

(ET sec. [1.295.110](#))

Information technology services

The AICPA code and the Yellow Book are generally consistent in their descriptions of information systems.

However, the AICPA code provides an exception to the description of its term financial information system (FIS). When an FIS is a tool that performs only discrete calculations and the *attest client* can meet certain requirements, the tool is not subject to the requirements in the “[Information Systems Services](#)” interpretation (ET sec. 1.295.145 [pending content in gray until January 2023]).

The AICPA code and the Yellow Book are also generally consistent on which services are prohibited.

The AICPA code provides examples of services that are permitted when you meet all the requirements of the

“Nonattest Services” subtopic. The Yellow Book requires you to apply general requirements and evaluate the service using the conceptual framework if the nonattest service is not expressly prohibited.

Recent revisions to the AICPA’s “Information Systems Design, Implementation or Integration” interpretation (ET sec. 1.295.145) are effective January 1, 2023, with early implementation allowed. The comparison here includes the revised requirements. The extant guidance that is effective through December 31, 2022, will be in the online code until January 2023.

Comparison table

This table compares the requirements in the AICPA code related to information technology services to the requirements and application guidance in the Yellow Book.

AICPA code	Yellow Book
<p>A financial information system (FIS) is a system that aggregates source data underlying the <i>financial statements</i> or generates information that is significant to either the <i>financial statements</i> or financial processes as a whole. An FIS includes a tool that calculates results unless:</p> <ol style="list-style-type: none"> the tool performs only discrete calculations, the <i>attest client</i> evaluates and accepts responsibility for the input and assumptions, and the <i>attest client</i> has sufficient information to understand the calculation and the results. <p><i>Independence would be considered to be impaired if the member:</i></p> <ol style="list-style-type: none"> designs or develops an <i>attest client’s</i> FIS. customizes an <i>attest client’s</i> commercial off-the-shelf (COTS) FIS software solution. provides interface services for a COTS FIS software solution. 	<p>Services related to IT systems include the design or implementation of hardware or software systems. The systems may aggregate source data, form part of the internal control over the subject matter of the engagement, or generate information that affects the subject matter of the engagement.</p> <p>(Yellow Book A3.103)</p> <p>Independence would be considered to be impaired if the auditor:</p> <ol style="list-style-type: none"> designs or develops a financial information system 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 engagement. makes other than insignificant modifications to source code underlying an audited entity’s existing financial information system 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 engagement.

AICPA code

Yellow Book

- d. performs data translation services for a COTS FIS software solution.
- e. provides post-implementation services as an ongoing function, process or activity that would result in the *member* assuming a management responsibility.

Independence would not be considered to be *impaired* when all requirements of the “Nonattest Services” subtopic are met if the *member*:

- a. performs design, development or implementation services that are not related to an FIS provided that the *attest client* has not outsourced a function, process or activity to the *member* that would result in the *member* assuming a management responsibility.
- b. installs a COTS FIS software solution.
- c. configures a COTS FIS software solution based on *client*-selected features, functionality options and settings within the third-party vendor’s software.
- d. uses a third-party vendor’s application, such as an application programming interface (API), to interface legacy or COTS FIS software solutions provided the *member* will not be designing or developing code for the application to work.
- e. uses a third-party vendor’s application, such as an API, to perform data translation services for a COTS FIS software solution provided the *member* will not be designing or developing code for the application to work.
- f. provides maintenance, support, or monitoring services that are individually separate, distinct and not ongoing engagements in which the *attest client* has outsourced no function, process or activity to the *member* that would result in the *member* assuming a management responsibility.

(ET sec. [1.295.145](#) [pending content in gray until January 2023])

(See ET sec. 1.295.145 for the current guidance [prior to January 2023])

- c. supervises audit entity personnel in the daily operation of an audited entity’s information system.
- d. operates an audited entity’s network, financial information system, 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 engagement.

([Yellow Book](#) R3.102)

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.

Executive or employee recruiting

The AICPA code and the Yellow Book are consistent on which services are prohibited.

The AICPA code provides examples of permitted services when you apply the *safeguards* from the “General Requirements for Performing Nonattest Services” interpretation. The Yellow Book requires you to apply general requirements and evaluate the service

using the conceptual framework if the nonattest service is not expressly prohibited.

Comparison table

This table compares the requirements related to executive or employee recruiting in the AICPA code and the Yellow Book.

AICPA code	Yellow Book
<p><i>Independence would be considered to be impaired if the member:</i></p> <ul style="list-style-type: none">a. commits the <i>attest client</i> to employee compensation or benefit arrangements.b. hires or terminates the <i>attest client's</i> employees. <p><i>Independence would not be considered to be impaired when the “General Requirements for Performing Nonattest Services” interpretation is applied if the member:</i></p> <ul style="list-style-type: none">a. recommends a position description or candidate specifications.b. solicits and screens candidates based on <i>client</i>-approved criteria, such as required education, skills or experience.c. recommends qualified candidates to the <i>attest client</i> for their consideration based on <i>client</i>-approved criteria.d. participates in employee hiring or compensation discussions in an advisory capacity. <p>(ET sec. 1.295.135)</p>	<p>Independence would be considered to be impaired if the auditor:</p> <ul style="list-style-type: none">a. commits the audited entity to employee compensation or benefit arrangements.b. hires or terminates audited entity employees. <p>(Yellow Book R3.106d)</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 AICPA code and the Yellow Book are consistent on the subject of which services are prohibited.

The AICPA code provides examples of permitted services when you apply the *safeguards* from the “General Requirements for Performing Nonattest Services” interpretation. The Yellow Book requires you to apply general requirements and evaluate the

service using the conceptual framework if the nonattest service is not expressly prohibited.

Comparison table

This table compares the requirements related to business risk consulting in the AICPA code and the Yellow Book.

AICPA code	Yellow Book
<p><i>Independence would be</i> considered to be <i>impaired</i> if the <i>member</i>:</p> <ul style="list-style-type: none">a. makes or approves business risk decisions.b. presents business risk considerations to the board or others on behalf of management. <p><i>Independence would not</i> be considered to be <i>impaired</i> when the “General Requirements for Performing Nonattest Services” interpretation is applied if the <i>member</i>:</p> <ul style="list-style-type: none">a. assists management in its assessment of the <i>attest client’s</i> business risk control processes.b. recommends improvements to an <i>attest client’s</i> business risk control processes and assists in the implementation of these improvements. <p>(ET sec. 1.295.125)</p>	<p>Independence would be considered to be impaired if the auditor:</p> <ul style="list-style-type: none">a. makes or approves business risk decisions.b. presents business risk considerations to those charged with governance or others on behalf of management. <p>(Yellow Book R3.106c)</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 audit assistance services

The AICPA code and the Yellow Book are consistent on the subject of which services are prohibited.

The AICPA code provides examples of permitted services when you apply the *safeguards* from the “General Requirements for Performing Nonattest Services” interpretation. The Yellow Book requires you to apply general requirements and evaluate the

service using the conceptual framework if the nonattest service is not expressly prohibited.

Comparison table

This table compares the requirements related to internal audit assistance services in the AICPA code and the Yellow Book.

AICPA code	Yellow Book
<p><i>Independence would be considered to be impaired if the member:</i></p> <ul style="list-style-type: none"> a. in effect, manages the <i>attest client's</i> internal audit activities. b. performs ongoing evaluations or control activities (for example, reviewing <i>loan</i> originations as part of the <i>attest client's</i> 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 <i>attest client's</i> operating or production processes that are equivalent to those of an ongoing compliance or quality control function. c. performs separate evaluations on the effectiveness of a significant control such that the <i>member</i> is, in effect, performing routine operations that are built into the <i>attest client's</i> business process. d. has <i>attest client</i> management rely on the <i>member's</i> work as the primary basis for the <i>attest client's</i> assertions on the design or operating effectiveness of internal controls. e. determines which, if any, recommendations for improving the internal control system should be implemented. f. reports to the board of directors or audit committee on behalf of management or the individual responsible for the internal audit function. 	<p>Independence would be considered to be impaired if the auditor:</p> <ul style="list-style-type: none"> a. sets internal audit policies or the strategic direction of internal audit activities. b. performs procedures that form part of the internal control, such as reviewing and approving changes to employee data access privileges. c. determines the scope of the internal audit function and resulting work. <p>(Yellow Book R3.96)</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>

- g. 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.
- h. 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).

If the *member* assists the *client* in performing financial and operational internal audit activities, *independence* would not be considered to be *impaired* provided that the "General Requirements for Performing Nonattest Services" interpretation is applied, and the *member* is satisfied that management:

- a. designates an individual or individuals who possess suitable skill, knowledge and experience, preferably within senior management, to be responsible for the internal audit function;
- b. determines the scope, risk, and frequency of internal audit activities, including those the *member* will perform in providing the services;
- c. evaluates the findings and results arising from the internal audit activities, including those the *member* will perform in providing the services; and
- d. evaluates the adequacy of the audit procedures performed and the findings resulting from the performance of those procedures.

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:

- a. assess whether *client* personnel’s performance is in compliance with management’s policies and procedures,
- b. identify opportunities for improvement, and
- c. recommend improvement or further action for management consideration and decision-making.

(ET sec. [1.295.150](#))

Internal control evaluation

When it comes to performing ongoing monitoring activities, the AICPA code and the Yellow Book indicate that those activities will *impair your independence*.

The two sets of standards are also consistent on the topic of performing separate evaluations: you should

consider the significance of any *threats* when you perform separate evaluations.

Comparison table

This table compares the requirements in the AICPA code related to internal control evaluation to the requirements and application guidance in the Yellow Book.

AICPA code	Yellow Book
<p>Designing, implementing, or maintaining the <i>attest client's</i> monitoring activities are management responsibilities. Accordingly, <i>independence</i> would be <i>impaired</i> if a <i>member</i> 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.</p> <p>Ongoing evaluations are generally defined, routine operations built in to the <i>attest client's</i> 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 <i>member</i> who performs such activities for an <i>attest client</i> would be considered to be accepting responsibility for maintaining the <i>attest client's</i> internal control. Accordingly, the management participation <i>threat</i> created by a <i>member</i> performing ongoing evaluations is so significant that no <i>safeguards</i> could reduce the <i>threat</i> to an <i>acceptable level</i>, and thus <i>independence</i> would be <i>impaired</i>.</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 in to the routine, recurring operating activities of an entity. Therefore, auditors should conclude that providing or supervising ongoing monitoring procedures over an entity's system of internal control impairs independence because the management participation threat created is so significant that no safeguards could reduce the threat to an acceptable level.</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*.

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.

(ET sec. [1.295.150](#))

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*.

(ET sec. [1.295.150](#))

Separate evaluations are sometimes provided as a nonaudit service. When providing separate evaluations, auditors should evaluate the significance of the threat created by performing separate evaluations and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level. Factors relevant to evaluating the significance of any threats created by providing separate evaluations include

- a. the frequency of the separate evaluations and
- b. the scope or extent of the controls (in relation to the scope of the engagement conducted) being evaluated.

A separate evaluation provided as a nonaudit service is not a substitute for engagement procedures in a Yellow Book engagement.

([Yellow Book](#) R3.97–3.98, A3.99–3.101)

Independence breach

The AICPA code and the Yellow Book both address breaches of their respective *independence* rules. Although both conclude that you should resign from the engagement when *independence* is *impaired*, the requirements differ on how to reach that conclusion.

In the AICPA code, resignation may be necessary if, after following the instructions on how to evaluate a breach as described in the “[Breach of an Independence Interpretation](#)” (ET sec. 1.298), you determine that the consequences of the breach cannot be addressed.

If you don’t resign because you determine that the consequences of the breach can be addressed, you could still be subject to an ethics investigation or enforcement action because, technically, the “Independence Rule” was breached.

The Yellow Book allows evaluation of an individual auditor’s impairment and its effects on the independence of the engagement team or the audit organization. When

this evaluation leads to the conclusion that an individual auditor’s impairment does not impair the independence of the engagement team or the audit organization, the engagement can continue. The factors used in this evaluation are generally consistent with the factors you would consider when evaluating the significance of a breach under the AICPA code.

The Yellow Book also recognizes that auditors in government may be required by statutes to perform attest work under circumstances that impair independence. In those situations, the auditor may modify the Yellow Book audit report for this impairment and continue the engagement.

Comparison table

This table compares the requirements in the AICPA code related to an *independence* breach to the requirements and application guidance in the Yellow Book.

AICPA code	Yellow Book
Breach of an independence interpretation In order for the consequences of an <i>independence</i> breach to be addressed by a <i>member</i> or the <i>member’s firm</i> pursuant to the provisions of the “Breach of an Independence Interpretation” interpretation, the <i>firm</i> must be compliant with QC section 10, <i>A Firm’s System of Quality Control</i> , ⁸ which requires the <i>member’s firm</i> to have established policies and procedures designed to provide it with reasonable assurance that the <i>firm</i> , its personnel, and, when applicable, others subject to <i>independence</i> requirements, maintain <i>independence</i> when required.	Impairments Auditors should conclude that independence is impaired if no safeguards have been effectively applied to eliminate an unacceptable threat or reduce it to an acceptable level. When auditors conclude that independence of the engagement team or the audit organization is impaired, auditors should decline to accept an engagement or should terminate an engagement in progress (except in circumstances discussed in paragraphs 3.25 or 3.84). (Yellow Book R3.59–3.60)

⁸ QC sections can be found in *AICPA Professional Standards*.

In situations in which a *partner* or professional employee of the *firm* breaches an *independence interpretation* and the *threat* to *independence* resulting from the breach is significant such that the *attest engagement team's* integrity, objectivity and professional skepticism are compromised, the provisions of this interpretation could not address the consequences of the breach as no actions could be taken to satisfactorily address the consequences of the breach.

In situations in which the lead *attest engagement partner* or an *individual in a position to influence the attest engagement* either (1) committed the breach or (2) knows of a breach and fails to ensure the breach is promptly communicated to or known by an appropriate individual within the *firm* as described in this interpretation, there is a rebuttable presumption that the provisions of this interpretation would not be able to address the breach as the *threats* to the *attest engagement team's* integrity, objectivity and professional skepticism and the *threats* to the appearance of *independence* would be considered so significant that no actions could be taken to satisfactorily address the consequences of the breach.

When a breach is identified, the *member* should, in accordance with his or her *firm's* policies and procedures, promptly communicate the breach to an appropriate individual within the *firm*, for example, an individual or individuals with responsibility for the policies and procedures relating to *independence*, or the *attest engagement partner* (the responsible individual).

The responsible individual should report the breach to those who need to take appropriate action and, when appropriate, should report the breach to relevant *network firms*. The responsible individual should be satisfied that the interest or relationship that caused the breach has been terminated, suspended, or eliminated and should address the consequences of the breach. A consequence of a breach may be that termination of the *attest engagement* is necessary.

Auditors should conclude that independence is impaired if no safeguards have been effectively applied to eliminate an unacceptable threat or reduce it to an acceptable level.

When auditors conclude that independence of the engagement team or the audit organization is impaired, auditors should decline to accept an engagement or should terminate an engagement in progress (except in circumstances discussed in paragraphs 3.25 or 3.84).

(*Yellow Book* R3.59–3.60)

Whether independence is impaired depends on the nature of the threat, whether the threat is of such significance that it would compromise an auditor's professional judgment or create the appearance that the auditor's integrity, objectivity, or professional skepticism may be compromised, and the specific safeguards applied to eliminate the threat or reduce it to an acceptable level.

If auditors conclude that an individual auditor's independence is impaired, it may be necessary to terminate the engagement, or it may be possible to take action that satisfactorily addresses the effect of the individual auditor's independence impairment.

Factors that are relevant in evaluating whether the independence of the engagement team or the audit organization is impaired by an individual auditor's independence impairment include:

- a. the nature and duration of the individual auditor's impairment;
- b. the number and nature of any previous impairments with respect to the current engagement;
- c. whether a member of the engagement team had knowledge of the interest or relationship that caused the individual auditor's impairment;
- d. whether the individual auditor whose independence is impaired is (1) a member of the engagement team or (2) another individual for whom there are independence requirements;

The responsible individual should evaluate the significance of the breach and its effect on the *attest engagement team's* integrity, objectivity, and professional skepticism and the ability to issue an attest report. The significance of the breach will depend on factors such as the following:

- a. The nature and duration of the breach
- b. The number and nature of any previous breaches with respect to the current *attest engagement*
- c. Whether a *member* of the *attest engagement team* had knowledge of the interest or relationship that caused the breach
- d. Whether the individual who caused the breach is a *member* of the *attest engagement team* or another individual for whom there are *independence* requirements
- e. The role of the individual if the breach relates to a *member* of the *attest engagement team*
- f. The effect of the service, if any, on the accounting records or the *attest client's financial statements* if the breach was caused by the provision of a professional service
- g. Whether a *partner* or *partner equivalent* of the *firm* had knowledge of the breach and failed to ensure that the breach was promptly communicated to an appropriate individual within the *firm*
- h. Whether the breach involved solely an *affiliate* of a *financial statement attest client* and, if so, the nature of the *affiliate* relationship
- i. The extent of the self-interest, advocacy, undue influence, or other *threats* created by the breach

Auditors should conclude that independence is impaired if no safeguards have been effectively applied to eliminate an unacceptable threat or reduce it to an acceptable level.

When auditors conclude that independence of the engagement team or the audit organization is impaired, auditors should decline to accept an engagement or should terminate an engagement in progress (except in circumstances discussed in paragraphs 3.25 or 3.84).

([Yellow Book](#) R3.59–3.60)

Whether independence is impaired depends on the nature of the threat, whether the threat is of such significance that it would compromise an auditor's professional judgment or create the appearance that the auditor's integrity, objectivity, or professional skepticism may be compromised, and the specific safeguards applied to eliminate the threat or reduce it to an acceptable level.

If auditors conclude that an individual auditor's independence is impaired, it may be necessary to terminate the engagement, or it may be possible to take action that satisfactorily addresses the effect of the individual auditor's independence impairment.

Factors that are relevant in evaluating whether the independence of the engagement team or the audit organization is impaired by an individual auditor's independence impairment include:

- a. the nature and duration of the individual auditor's impairment;
- b. the number and nature of any previous impairments with respect to the current engagement;
- c. whether a member of the engagement team had knowledge of the interest or relationship that caused the individual auditor's impairment;
- d. whether the individual auditor whose independence is impaired is (1) a member of the engagement team or (2) another individual for whom there are independence requirements;

Depending upon the significance of the breach, it may be necessary to terminate the *attest engagement* or it may be possible to take action that satisfactorily addresses the consequences of the breach. Certain breaches described in this interpretation cannot be addressed by the provisions of this interpretation. For all other breaches, the responsible individual should determine whether satisfactory action can be taken and is appropriate in the circumstances. In making this determination, the responsible individual should exercise professional judgment and take into account whether a reasonable and informed third party, weighing the significance of the breach, the action to be taken, and all the specific facts and circumstances available to the *member* at that time, would likely conclude that the *attest engagement team's* integrity, objectivity, and professional skepticism would be compromised and therefore whether *independence* is *impaired*.

Examples of actions that the responsible individual may consider include the following:

- a. Removing the relevant individual from the *attest engagement team*
- b. Conducting an additional review of the affected attest work or re-performing that work to the extent necessary; in either case, using different personnel
- c. Recommending that the *attest client* engage another *firm* to review or re-perform the affected attest work to the extent necessary
- d. Engaging another *firm* to evaluate the results of the nonattest service or having another *firm* re-perform the nonattest service to the extent necessary to enable it to take responsibility for the service if the breach relates to a nonattest service that affects the accounting records or an amount that is recorded in the *financial statements*

- e. the role of the individual auditor on the engagement team whose independence is impaired;
- f. the effect of the service, if any, on the accounting records or audited entity's financial statements if the individual auditor's impairment was caused by the provision of a nonaudit service;
- g. whether a partner or director of the audit organization had knowledge of the individual auditor's impairment and failed to ensure that the individual auditor's impairment was promptly communicated to an appropriate individual within the audit organization; and
- h. the extent of the self-interest, undue influence, or other threats created by the individual auditor's impairment.

([Yellow Book](#) A3.61–3.63)

Potential impairments relating to previously issued reports

If auditors initially identify a threat to independence after the audit report is issued, auditors should evaluate the threat's effect on the engagement and on generally accepted government auditing standards (GAGAS) compliance. If the auditors determine that the newly identified threat's effect on the engagement would have resulted in the audit report being different from the report issued had the auditors been aware of it, they should communicate in the same manner as that used to originally distribute the report to those charged with governance, the appropriate officials of the audited entity, the appropriate officials of the audit organization requiring or arranging for the engagements, and other known users, so that they do not continue to rely on findings or conclusions that were affected by the threat to independence. If auditors previously posted the report to their publicly accessible website, they should remove the report and post a public notification that the report was removed. The auditors should then determine whether to perform the additional engagement work necessary to reissue the report, including any revised findings or conclusions, or to repost the original report if the additional engagement work does not result in a change in findings or conclusions.

([Yellow Book](#) R3.34)

If the responsible individual determines that action cannot be taken to satisfactorily address the consequences of the breach, the responsible individual should inform *those charged with governance* as soon as practicable and take the steps necessary to terminate the *attest engagement* in compliance with any applicable legal or regulatory requirements relevant to terminating the *attest engagement*. Where termination is not permitted by law or regulation, the responsible individual should comply with any reporting or disclosure requirements.

If the responsible individual determines that action can be taken to satisfactorily address the consequences of the breach, the responsible individual should discuss the breach and the action taken or proposed to be taken with *those charged with governance* as soon as practicable, unless *those charged with governance* have specified an alternative timing for reporting less significant breaches. The matters to be discussed should include the following:

- a. The significance of the breach, including its nature and duration
- b. How the breach occurred and how it was identified
- c. The action taken or proposed to be taken and the responsible individual's rationale for how the action will satisfactorily address the consequences of the breach and enable the *firm* to issue the attest report
- d. The conclusion that, in the responsible individual's professional judgment, the integrity, objectivity, and professional skepticism of the *attest engagement team* has not been compromised and the rationale for that conclusion
- e. Any steps that the responsible individual has taken or proposes to take to reduce or avoid the risk of further breaches occurring

Exceptions

Auditors in government sometimes work under conditions that impair independence. An example of such a circumstance is a threat created by a statutory requirement for auditors to serve in official roles that conflict with the independence requirements of this section, such as a law that requires an auditor to serve as a voting member of an entity's management committee or board of directors, for which there are no safeguards to eliminate or reduce the threats to an acceptable level. Paragraph 2.17b provides standard language for modified GAGAS compliance statements for auditors who experience such impairments. Determining how to modify the GAGAS compliance statement in these circumstances is a matter of professional judgment.

([Yellow Book](#) A3.25)

Auditors in a government entity may be required to provide a nonaudit service that impairs the auditors' independence with respect to a required engagement. If, because of constitutional or statutory requirements over which they have no control, the auditors can neither implement safeguards to reduce the resulting threat to an acceptable level nor decline to provide or terminate a nonaudit service that is incompatible with engagement responsibilities, auditors should disclose the nature of the threat that could not be eliminated or reduced to an acceptable level and modify the GAGAS compliance statement as discussed in paragraph 2.17b accordingly. Determining how to modify the GAGAS compliance statement in these circumstances is a matter of professional judgment.

([Yellow Book](#) R3.84)

The responsible individual should communicate in writing with *those charged with governance* all matters discussed in accordance with the paragraph above and obtain the concurrence of *those charged with governance* that action can be, or has been, taken to satisfactorily address the consequences of the breach. The communication shall include a description of the *firm's* policies and procedures relevant to the breach designed to provide it with reasonable assurance that *independence* is maintained and any steps that the *firm* has taken, or proposes to take, to reduce or avoid the risk of further breaches occurring. If *those charged with governance* do not concur that the action satisfactorily addresses the consequences of the breach, the responsible individual should take the steps necessary to terminate the *attest engagement*, where permitted by law or regulation, in compliance with any applicable legal or regulatory requirements relevant to terminating the *attest engagement*. Where termination is not permitted by law or regulation, the responsible individual should comply with any reporting or disclosure requirements.

Breaches relating to previously issued reports

If the breach occurred prior to the issuance of the previous attest report, the responsible individual should comply with this section in evaluating the significance of the breach and its effect on the *attest engagement team's* objectivity, integrity, and professional skepticism and its ability to issue an attest report in the current period. The responsible individual should also consider the effect of the breach, if any, on the *attest engagement team's* integrity, objectivity, and professional skepticism in relation to any previously issued attest reports, and the possibility of withdrawing such attest reports in accordance with professional standards, and discuss the matter with *those charged with governance*.

Documentation

The responsible individual should document the breach, the action taken, key decisions made, and all the matters discussed with *those charged with governance* and any discussions with a professional body, relevant regulator, or oversight authority. When the *firm* continues with the *attest engagement*, the matters to be documented should also include the conclusion that, in the responsible individual's professional judgment, the integrity, objectivity and professional skepticism of the *attest engagement team* have not been compromised and the rationale for why the action taken satisfactorily addressed the consequences of the breach such that the *firm* could issue an attest report. Failure to prepare the required documentation does not *impair independence* provided the *member* can demonstrate the *member* satisfactorily addressed the consequences of the breach and discussed the breach, the action taken, and key decisions made with *those charged with governance*, and as applicable, a professional body, relevant regulator or oversight authority. However, failure to prepare the required documentation would be considered a violation of the "Compliance With Standards Rule."

(ET sec. [1.298](#))



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