

OBJECTIVE: To ensure the public interest is properly served through maintaining a high degree of integrity, objectivity and independence through compliance with applicable professional standards on auditor independence.

CONSIDERATIONS: Generally accepted auditing standards and Government Auditing Standards essentially require the following:

To be independent, the auditor must be intellectually honest; and to be recognized as independent, the auditor must be free from any obligation to or interest in the client, its management or owners. Auditors should be free of all impairments to independence in fact and appearance. Auditors should not perform management functions or make management decisions for the audit client, and should not audit their own work or provide nonaudit services material to the subject matter of the audit.

All audit team members, as well as the firm as an organization, continually evaluate audit independence to ensure compliance with professional standards for all audit engagements. This documentation is provided as evidence of the independence considerations as they apply to this specific audit for the audited entity and audit period noted above.

POTENTIAL INDEPENDENCE IMPAIRMENTS

Potential Personal Impairments:
1. Immediate family member or close family member such as a parent, sibling or child is a board member or officer of the audited entity, or an employee in a position to exert influence over the entity.
2. Direct financial interest or indirect material interest in the audited entity.
3. Responsibility for managing or decision-making, supervision, or ongoing monitoring within the audited entity.
4. Concurrent or subsequent performance of the audit by individuals who maintained the official accounting records of the audited entity.
5. Preparing audited entity's source documents, posting transaction (coded or not coded), authoring, executing or approving transactions, or having custody of any funds of the entity.
6. Preconceived ideas, loyalties or convictions towards the entity or any of its individual that could bias the audit.
7. Seeking employment with the audited entity.
Potential External Impairments
8. External influence or pressure to limit audit scope, interfere with selection of audit procedures/transactions, appointment of audit staff or restriction of audit fees.
9. Unreasonable restrictions on the time allowed to complete the audit or issue the report.
10. Authority to overrule or inappropriately influence the content of the report.
11. Threat of replacement over disagreements or other matters.
Potential Organizational Impairments
12. Political pressures that could affect the objectivity of the audit conduct, findings and reporting.
13. Auditor is prohibited or restricted in its ability to report to an audit committee or its equivalent.

PROHIBITED SERVICES CONSIDERATIONS

Prohibited Services	Service Avoided
Designing, developing or installing the entity's accounting system or operating the system.	
Internal audit services.	
Serving as a member of a decision-making board or committee of the entity, or supervising any entity employees.	
Maintaining entity's accounting records or custody of assets.	
Performing accounting records reconciliations.	
Preparing budget revenue estimates and proposing appropriations.	

AUDIT TEAM MEMBER CONSIDERATIONS

Audit Team Member	Discussion of Any Potential Independence Impairments

NONAUDIT SERVICES CONSIDERATION

Non-audit services may be performed for the audited entity by the auditor as long as these services do not violate the overarching independence principles of (1) auditors should not provide non-audit services that involve performing management functions or making management decisions, (2) auditors should not audit their own work or provide non-audit services in situations where the services are material to the audit subject matter, and the auditor applies the applicable independence safeguards defined by GAGAS.

Example of Typical Non-Audit Services for Consideration:

- Preparing trial balances, draft financial statements, notes and proposing correcting or adjusting entries;
- Maintaining capital asset depreciation schedules for the audited entity;
- Processing payroll for the audited entity;
- Providing appraisal or valuation services;
- Providing information system advisory services;
- Providing budget preparation and amendment advisory services;
- Providing expert witness services;
- Preparing routine tax filings or other regulatory reports.

Nonaudit Services Consideration	Overarching Principles		Safeguards							
	1	2	1	2	3	4	5	6	7	
1. Nonaudit Service: Rationale on Overarching Principles*:				See Engagement Letter.			See Firm Quality Control Manual.			
2. Nonaudit Service: Rationale on Overarching Principles*:										
3. Nonaudit Service: Rationale on Overarching Principles*:										
4. Nonaudit Service: Rationale on Overarching Principles*:										

* The rationale that the nonaudit service does not violate the overarching principles must be documented in the space provided below each nonaudit service. Care should be given to avoid situations that could lead reasonable third parties with knowledge of the relevant circumstances to conclude that the division or its auditors are not independent in relation to the audit.

Overarching Principles

(The overarching principles apply to the audit organization/firm as a whole. In other words, all members of the Firm must avoid violating these two principles. For example, if one member of the Firm provides a nonaudit service that is material to the subject matter of the audit, but that member is not part of the audit engagement team, independence would still be impaired)

1. *Service provided does not involve performing a management function or making management decisions.*
2. *Service provided does not involve our firm auditing its own work or providing nonaudit services that are **significant/material** to the engagement subject matter.*

Safeguards

1. The auditor should document the consideration of the nonaudit service, including the rationale that providing the service does not violate the two overarching principles of independence.
2. The auditor should document the understanding established with the client regarding:
 - a) objectives of the nonaudit services;
 - b) scope of work of nonaudit services;
 - c) deliverables of nonaudit services; and
 - d) management's acceptance of responsibility for the substantive outcomes of the work, management's acceptance of its responsibility to be in a position in fact and appearance to make an informed judgment on the results of the nonaudit service, and management's compliance with the following oversight responsibilities in GAS 3.17b and 3.17e:
 - 1) a management-level individual has been designated to be responsible and accountable for overseeing the nonaudit service,
 - 2) the designated individual monitors the performance of the nonaudit service to ensure that it meets management's objectives,
 - 3) the designated individual makes any decisions that involve management functions related to the nonaudit service and accepts full responsibility for such decisions, and
 - 4) the designated individual evaluates the adequacy of the services performed and any findings that result.
3. Personnel providing the nonaudit service cannot plan, conduct, or review audit work involving the nonaudit service. Audit and nonaudit work must be performed by separate engagement teams.¹
4. The scope and extent of audit work cannot be reduced below the level that would be appropriate if the nonaudit work were performed by a third party.
5. Firm's quality control system should include policies and procedures that ensure consideration of the effect of the nonaudit service on ongoing, planned and future engagements.
6. When a nonaudit service conflicts with the independence standard for the engagement, the service will not be provided by the Firm.
7. All related nonaudit services have been identified in this document, the engagement letter, and the client representation letter.

¹ This safeguard applies to the individual Firm member and provides for an engagement team approach to independence impairment as it relates to this safeguard. *De minimis exception.* Government Auditing Standards: Answers to Independence Standards Questions and Answers provides an exception to this safeguard for nonaudit services that involve a *de minimis* amount of time. If an organization provides no more than 40 hours of nonaudit services in total relating to a specific engagement, this safeguard requiring separate engagement teams (#3 above) is waived. However, the two overarching principles and all the remaining safeguards still apply.