

Understanding the AICPA's Yellow Book Independence Practice Aid for  
Performing Nonaudit Services Web Event – April 11, 2012

Case Study Facts and Circumstances

***This completed example assumes the facts described in the following paragraph. The audit firm of ABC Firm is performing the audit of Small Town USA. ABC Firm has audited Small Town for the last three years.***

Small Town USA is governed by a ten member town council that meets monthly. The town has three employees in the finance department who are involved in the audit. Brandon, the town manager, has worked for the town for fifteen years. Dave, the finance director, has worked for Small Town USA for five years but previously worked for another small town in a similar role. Shelly, the accounting clerk, has worked for Small Town USA for fifteen years. The finance department provides a trial balance to ABC Firm but does not make any year-end adjusting entries. Small Town USA also provides a listing of fixed asset additions and deletions, and ABC Firm prepares the depreciation schedule. ABC Firm prepares Small Town USA's financial statements, including the cash-to accrual conversion (including Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments* conversion entries). ABC Firm also prepares the property tax roll reconciliation. The property tax roll is maintained by the accounting clerk. The finance director reviews and approves all adjusting entries. The capital assets for the December 31, 2012, year-end are not material to Small Town USA's financial statements. The town manager and town council assume all management responsibilities related to the nonaudit services.

*Note: The following example is for illustrative purposes only to demonstrate how an auditor, using professional judgment, might reach conclusions about the situations described. It is not intended to be an authoritative example. Subtle changes in facts and circumstances could lead an auditor to reach different conclusions.*