

## Appendix A: Detailed Instructions to This Practice Aid

<i>Instructions to Complete This Practice Aid (Outline Number Refers to Column Number in the Practice Aid)</i>	<i>References and Additional Resources</i>
<p>1. The auditor should list and provide a detailed description of all nonaudit services to be provided to the audited entity during the period of professional engagement and the period covered by the financial statements or subject matter of the audit. This evaluation should be made before the nonaudit services are performed<sup>1</sup> and whenever relevant new information about a threat to independence comes to the attention of the auditor during the audit.</p> <p>Repeat or copy the descriptions of the nonaudit services in column 1 in sections II–IV, as necessary.</p>	<ul style="list-style-type: none"> <li>• Paragraph 3.05 of <i>Government Auditing Standards</i> (the 2011 Yellow Book)</li> <li>• Appendix B, “Nonaudit Services”</li> <li>• Appendix C, “Prohibited Nonaudit Services”</li> <li>• “Glossary and Resources” (for the period of professional engagement)</li> </ul>
<p>2. Determine whether the 2011 Yellow Book specifically prohibits the nonaudit services being considered. If prohibited, the auditor should decline to provide the nonaudit service or withdraw from the audit engagement.</p>	<ul style="list-style-type: none"> <li>• Paragraphs 3.50–.58 of the 2011 Yellow Book</li> <li>• Appendix C</li> </ul>
<p>3. Determine whether performance of the nonaudit services would require the auditor to take on management responsibilities.</p> <p><b>Note:</b> Management responsibilities involve leading and directing an entity, including making decisions regarding the acquisition, deployment, and control of human, financial, physical, and intangible resources. If an auditor were to assume management responsibilities for an audited entity, the management participation threats created would be so significant that no safeguards could eliminate or reduce such threats to an acceptable level.</p>	<ul style="list-style-type: none"> <li>• Paragraphs 3.35–.36 of the 2011 Yellow Book</li> <li>• Appendix C</li> </ul>
<p>4. Determine whether there are significant threats to independence and document all such threats. Auditors should evaluate threats both individually and in the aggregate because threats can have a cumulative effect on an auditor’s independence. Document all threats identified as significant in column 4.</p> <p><b>Note:</b> Management participation and self-review threats generally exist whenever nonaudit services are performed. Although the auditor is not required to document the rationale why threats are not considered significant, the auditor should be prepared to justify his or her professional judgment regarding threats not deemed to be significant.</p>	<ul style="list-style-type: none"> <li>• Appendix D, “Threat Indicators”</li> </ul>
<p>5. Document safeguards applied to mitigate identified significant threats to independence. <i>Safeguards</i> are controls designed to eliminate or reduce threats to independence to an acceptable level.</p> <p><b>Note:</b> It is not possible to rely solely on safeguards that the audited entity has implemented to eliminate threats or reduce them to an acceptable level when significant threats have been identified.</p>	<ul style="list-style-type: none"> <li>• Paragraphs 3.16 and 3.19 of the 2011 Yellow Book</li> <li>• Appendix E, “Application of Safeguards”</li> </ul>
<p>6. Determine whether the application of safeguards eliminates or reduces the threats to an acceptable level. Threats to independence</p>	<ul style="list-style-type: none"> <li>• Paragraph 3.22 of the 2011 Yellow Book</li> </ul>

<sup>1</sup> For nonaudit services performed during the period covered by the financial statements but prior to the period of professional engagement, the auditor should consult paragraph 3.48 of *Government Auditing Standards*.

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<p>are not at an acceptable level if they either (a) could affect the auditor’s ability to perform an audit without being affected by influences that compromise professional judgment or (b) could expose the audit organization to circumstances that would cause a reasonable and informed third party to conclude that the integrity, objectivity, or professional skepticism of the audit organization or a member of the audit team had been compromised.</p> <p><b>Note:</b> In making the determination that safeguards are both available and have been applied, the auditor should use professional judgment and should take into account whether both independence of mind and independence in appearance are maintained. Both qualitative and quantitative factors should be considered.</p>	
<p>7. Identify the individual(s) designated by the audited entity to oversee the nonaudit services(s) to be provided by the auditor. In some cases, there may be one individual overseeing all nonaudit services. In other cases, there may be different individuals designated to oversee different nonaudit service(s).</p>	<ul style="list-style-type: none"> <li>• Appendix F, “Evaluation of Skills, Knowledge, or Experience”</li> </ul>
<p>8. Document the skills, knowledge, or experience (SKE) of the individual(s) designated by the audited entity to oversee the nonaudit service(s).</p> <p><b>Note:</b> The auditor is required to evaluate the suitability of SKE of the individual(s) designated by the audited entity to oversee the nonaudit service(s). Representations by management alone would not be sufficient to perform or document this evaluation. If the auditor is unable to reach a conclusion that the individual(s) possesses suitable SKE to oversee the service, then the auditor is assuming management responsibilities, and independence would be impaired. Evaluation of SKE should be performed for each nonaudit service. The 2011 Yellow Book does not require the individual(s) to possess the expertise to perform or reperform the nonaudit service(s).</p>	<ul style="list-style-type: none"> <li>• Paragraphs 3.34, 3.38, and 3.59 of the 2011 Yellow Book</li> <li>• Appendix F</li> </ul>
<p>9. Document that the audited entity’s management has agreed to each of the management responsibilities described subsequently in (a)–(c) in connection with the nonaudit service(s). If management does not agree to assume all these functions, independence would be impaired if the nonaudit service(s) is provided to the audited entity. The auditor should document the agreement by either indicating that management has agreed to assume each of the management responsibilities in the column provided or by indicating a working paper reference to where such management agreement is documented (such as an engagement letter).</p>	<ul style="list-style-type: none"> <li>• Paragraphs 3.37–.38 of the 2011 Yellow Book</li> </ul>
<p>a. Assume all management responsibilities</p>	
<p>b. Evaluate the adequacy and results of the service(s) performed</p>	
<p>c. Accept responsibility for the results of the service(s)</p>	
<p>10. Document the understanding established with the audited entity regarding the objectives of the nonaudit service(s). Alternatively, provide a working paper reference to where such documentation is located (such as an engagement letter).</p>	<ul style="list-style-type: none"> <li>• Paragraph 3.39 of the 2011 Yellow Book</li> </ul>
<p>11. Document the understanding established with the audited entity regarding the auditor’s responsibilities for the nonaudit service(s).</p>	<ul style="list-style-type: none"> <li>• Paragraph 3.39 of the 2011 Yellow Book</li> </ul>

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<p>Alternatively, provide a working paper reference to where such documentation is located (such as an engagement letter).</p>	
<p>12. Document the understanding established with the audited entity regarding the limitations, if any, for the nonaudit service(s). Alternatively, provide a working paper reference to where such documentation is located (such as an engagement letter).</p>	<ul style="list-style-type: none"> <li>• Paragraph 3.39 of the 2011 Yellow Book</li> </ul>
<p>13. Conclusion: Document the date and signature of the preparer and supervisory reviewer.</p> <p>If, subsequent to reaching a conclusion, relevant new facts and circumstances come to the attention of the auditor regarding threats to independence, the auditor should evaluate the significance of the threats, in accordance with the Yellow Book Conceptual Framework, and update the practice aid documentation and conclusion as necessary.</p>	<ul style="list-style-type: none"> <li>• Paragraphs 3.21 and 6.79–.83 of the 2011 Yellow Book</li> </ul>