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Is your CPA independent?

What is independence?

Independence is defined in [ET section 100.01, Conceptual Framework for AICPA Independence Standards \(AICPA, Professional Standards, vol. 2\)](#), as follows:

Independence of mind. The state of mind that permits the performance of an attest service without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.

Independence in appearance. The avoidance of circumstances that would cause a reasonable and informed third party, having knowledge of all relevant information, including safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of a firm or a member of the attest engagement team had been compromised.

These definitions reflect the long-standing professional requirement that members who provide services to entities for which independence is required be independent both "in fact" (that is, "of mind") and in appearance.

When is your CPA not independent?

Per the AICPA Independence Rule, .01 Rule 101-Independence:

A member in public practice shall be independent in the performance of professional services as required by standards promulgated by bodies designated by Council. The most common professional services provided to small businesses, that require the CPA to be independent are audits of financial statements and review of financial statement services. A list of situations that impair independence (though not all inclusive) are financial interest in the client, business relationships with the client, family ownership in the client (including firm employees), being on the board of directors or a trustee of the client, former employment with the client, fee issues, and the performance of other services for the client.

What about those "other" services?

According to AICPA Independence Rule, .05 101-3-Performance of other services:

A member or his or her firm ("member") who performs an attest engagement for a client may also perform other nonattest services ("other services") for that client. Before a member

performs other services for an attest client, he or she must evaluate the effect of such services on his or her independence. In particular, care should be taken not to perform management functions or make management decisions for the attest client, the responsibility for which remains with the client's board of directors and management. Before performing other services, the member should establish an understanding with the client regarding the objectives of the engagement, the services to be performed, management's responsibilities, the member's responsibilities, and the limitations of the engagement. It is preferable that this understanding be documented in an engagement letter. In addition, the member should be satisfied that the client is in a position to have an informed judgment on the results of the other services and that the client understands its responsibility to-

1. Designate a management-level individual or individuals to be responsible for overseeing the services being provided.
2. Evaluate the adequacy of the services performed and any findings that result.
3. Make management decisions, including accepting responsibility for the results of the other services.
4. Establish and maintain internal controls, including monitoring ongoing activities.

General Activities

The following are some general activities that would be considered to impair a member's independence:

- Authorizing, executing or consummating a transaction, or otherwise exercising authority on behalf of a client or having the authority to do so
- Preparing source documents or originating data, in electronic or other form, evidencing the occurrence of a transaction (for example, purchase orders, payroll time records, and customer orders)
- Having custody of client assets
- Supervising client employees in the performance of their normal recurring activities
- Determining which recommendations of the member should be implemented
- Reporting to the board of directors on behalf of management
- Serving as a client's stock transfer or escrow agent, registrar, general counsel or its equivalent

The most common service that accountants perform that impairs independence is bookkeeping services. However, the mere performance of bookkeeping services or other services that assist small businesses do not necessarily impair independence. Here are some of the "other services" that we perform for our clients and how we maintain our independence with respect to your company in accordance with AICPA guidelines:

Type of Service	Independence <u>Would Not Be Impaired</u> because we...	Independence <u>Would Be Impaired</u> , if we...
Bookkeeping	<ul style="list-style-type: none"> • Record transactions for which management has determined or approved the appropriate account classification, or post coded transactions to a client's 	<ul style="list-style-type: none"> • Determine or change journal entries, account codings or classification for transactions, or other accounting records without

Type of Service	Independence <u>Would Not</u> Be Impaired because we...	Independence <u>Would</u> Be Impaired, if we...
	<p>general ledger.</p> <ul style="list-style-type: none"> • Prepare financial statements based on information in the trial balance. • Post client-approved entries to a client's trial balance. • Propose standard, adjusting, or correcting journal entries or other changes affecting the financial statements to the client. • Provide data-processing services. 	<p>obtaining client approval.</p> <ul style="list-style-type: none"> • Authorize or approve transactions. • Prepare source documents or originate data. • Make changes to source documents without client approval.
Payroll and other disbursement	<ul style="list-style-type: none"> • Using payroll time records provided and approved by the client, generate unsigned checks, or process client's payroll. • Transmit client-approved payroll or other disbursement information to a financial institution provided the client has authorized the member to make the transmission and has made arrangements for the financial institution to limit the corresponding individual payments as to amount and payee. In addition, once transmitted, the client must authorize the financial institution to process the information. • Make electronic payroll tax payments in accordance with U.S. Treasury Department guidelines provided the client has made arrangements for its financial institution to limit such payments to a named payee 	<ul style="list-style-type: none"> • Accept responsibility to authorize payment of client funds, electronically or otherwise, except as specifically provided for with respect to electronic payroll tax payments. • Accept responsibility to sign or cosign client checks, even if only in emergency situations. • Maintain a client's bank account or otherwise have custody of a client's funds or make credit or banking decisions for the client. • Sign payroll tax return on behalf of client management. • Approve vendor invoices for payment
Executive or employee search	<ul style="list-style-type: none"> • Recommend a position description or candidate specifications. • Solicit and perform screening of candidates and recommend qualified candidates to a client based on the client- 	<ul style="list-style-type: none"> • Commit the client to employee compensation or benefit arrangements. • Hire or terminate client employees.

Type of Service	Independence <u>Would Not</u> Be Impaired because we...	Independence <u>Would</u> Be Impaired, if we...
Information systems- design, installation or integration	<p>approved criteria (e.g., required skills and experience).</p> <ul style="list-style-type: none"> Participate in employee hiring or compensation discussions in an advisory capacity. Design, install or integrate a client's information system, provided the client makes all management decisions Customize a prepackaged accounting or information system, provided the client makes all management decisions. Provide the initial training and instruction to client employees on newly implemented information and control system. 	<ul style="list-style-type: none"> Supervise client personnel in the daily operation of a client's information system. Operate a client's local area network (LAN) system when the client has not designated a competent individual, preferably within senior management, to be responsible for the LAN.

For more information on how we can assist you with any services, call us at (410)772-0065 or email us at contactus@cjeffersoncpa.com