Background:
Inquiry was made by a sole practitioner as to whether preparation of GAAP conversion entries, for a Public Housing Authority (PHA), would constitute an impairment in Independence which would preclude the practitioner from performing the audit for that PHA.

Issues:
SAS No. 1, section 220 states that “To be independent, the auditor must be intellectually honest: to be recognized as independent, he must be free from any obligation to or interest in the client, its management, or its owners”. Additionally, “Independent auditors should not only be independent in fact: they should avoid situations that may lead outsiders to doubt their independence”.

Accordingly, the question is whether the performance of an accounting function for a Housing Authority (i.e. preparation of GAAP conversion entries) would constitute an impairment of independence as defined under SAS No.1.

Analysis:
ET Section 101 (Interpretation under Rule 101, 101-3 – Accounting services) states:

“Members in public practice may be asked to provide manual or automated bookkeeping or data processing services to clients...A member providing such services to a client must meet the following requirements to be considered independent:

1. **The client must accept the responsibility for the financial statements as his own.** The client must be sufficiently informed of the enterprise's activities and financial condition and the applicable accounting principles so that the client can reasonably accept such responsibility, including, specifically, fairness of “valuation and presentation” and adequacy of disclosure. When necessary, the member must discuss accounting matters with the client to assist the client in understanding such matters.

2. **The member must not assume the role of employee or of management.** For example, the member shall not consummate transactions, have custody of assets, or exercise authority on behalf of the client. The client must prepare the source documents on transactions in sufficient detail to identify clearly the nature and amount of such transactions. The member should not make changes in such basic data without the concurrence of the client.

3. **When financial statements are prepared from books and records, which the member has maintained, the member must comply with applicable standards for audits, reviews, and compilations.”**

ET Section 191 (Ethics Rulings on Independence, Integrity, and Objectivity) identifies specific Q&A points of consideration that may or may not constitute an impairment in independence. Under two specific points of consideration, a member in public practice performed duties, which for all intents and purposes represent non-attest and/or advisory services. In the cases noted, as long as the non-attest functions and/or advisory
services performed by the practitioner did not include management decisions or involvement as an employee of the entity, independence was not impaired.

Conclusion:

Preparation and recording of GAAP conversion entries in and of itself should not constitute an impairment of Independence. While most literature is inconclusive over the exact definition of Independence, the member must take into consideration what the perception is regarding the level of work being performed. If the preparation and/or recording of the GAAP conversion entries are limited to the recording of information provided by the client, with no managerial decisions being made by the practitioner, it is likely that Independence has not been impaired.

Note that in addition to the level of responsibility taken by the practitioner in the performance of these accounting functions, consideration should always be given to any financial or beneficial interest the practitioner may have with the entity in question. Independence directly affects the financial information user perception of the quality of the information being provided. Accordingly, it is the responsibility of the practitioner to monitor any and all dealings with clients in order to assure himself that Independence in fact and in appearance is maintained in order to maintain reliability over the financial information being reported upon.