

Procuring Non-Audit Services from the Audit Firm: Introductory Guidance

Background

If a health center intends to procure non-audit services from its audit firm, in addition to the procurement standards and other contracting requirements discussed above, the health center must consider the Auditor Independence Standards included in the Generally Accepted Government Auditing Standards (“GAGAS”) (commonly known as the “Yellow Book”), which is issued by the Government Accounting Office (“GAO”).

In general, the GAO Yellow Book standards for auditor independence prohibit the audit firm from auditing its own work as well as from providing a non-audit service where such service is significantly material to the audit. Further, the firm should not perform non-audit services that involve management functions or management decisions. Non-audit services include:

- Implementing accounting systems;
- Determining account balances;
- Developing internal control systems;
- Establishing capitalization criteria;
- Processing payroll;
- Posting of transactions;
- Evaluating assets;
- Designing or implementing IT or other similar systems; and,
- Performing actuarial studies.

Notwithstanding the foregoing, an audit firm can provide certain limited non-audit services to a health center for which it has conducted the annual audit, so long as certain safeguards are put into place:

1. The health center’s management must take responsibility for the decisions pertaining to the non-audit services; and,
2. The responsibilities of the audit firm and management must be spelled out in the audit engagement letter.

Assuming appropriate safeguards have been established, the audit firm can provide non-audit services to the health center, including but not limited to:

1. Certain basic accounting functions provided that the task involves limited exercise of discretion on the part of the auditor, e.g., restatement of existing records maintained by the auditee;

2. Computing of payroll based on the center's time records (but not preparing the entire payroll);
3. Making valuation determinations, subject to the decisions of the center's management;
4. Preparing an indirect cost proposal (subject to limitation by management and so long as the indirect costs recovered in the prior year do not exceed \$1 million);
5. Advising on information technology issues, provided that the center's management takes responsibility for the decisions;
6. Providing limited human resource advice;
7. Preparing routine tax filings;
8. Conducting legislative and administrative fact gathering; and
9. Assessing internal controls.¹

Advice and Recommendations²

With the current emphasis on corporate responsibility and transparency of actions, it is essential for health centers to follow the Yellow Book's auditor independence standards when contracting with their audit firms for non-audit services. Prior to determining whether the audit firm can provide a specific non-audit service, the health center should examine the facts and circumstances of services, as well as whether (1) the health center has appropriate safeguards in place, and (2) providing the contemplated services will comply with both the "letter" and the "spirit" of the standards.

- [Procuring non-audit services from the audit firm: Sample policy and procedure](#)

¹ This list is not exhaustive. Health centers should refer to Yellow Book sections 3.33 through 3.58 for a complete discussion of independence standards and permissible/prohibited activities.

² The Authors of these materials include attorneys at the law firm of Feldesman Tucker Leifer Fidell LLP. The advice and recommendations consist of general guidance based on federal law and regulations and do not necessarily apply to all health centers under all facts and circumstances. Further, these materials do not replace, and are not a substitute for, legal advice from qualified legal counsel.