

Transylvania County Schools

Proposal for Audit Services
June 30, 2023, 2024 and 2025

Transylvania County Schools

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ANDERSON SMITH & WIKE PLLC

Certified Public Accountants

Dear Ms. Juba,

Thank you for giving Anderson Smith & Wike PLLC the opportunity to provide a proposal for the audit services for Transylvania County Schools. We are a service-oriented accounting firm and our largest practice area is in providing audit services to school districts. In fact, we audit more school districts in North Carolina than any other firm. We truly feel that we are a valuable resource for our clients. We always try to “pull” with our clients, not against.

On behalf of Anderson Smith & Wike PLLC, we are all very pleased to be able to provide you with this proposal for the audit of the basic financial statements of Transylvania County Schools for the years ending June 30, 2023, 2024 and 2025.

If you have any questions, or would like to discuss the proposal in more detail, do not hesitate to call. I can be reached at (336) 380-4123.

Sincerely,

Shannon Dennison, CPA
Anderson Smith & Wike PLLC



Proposal Highlights

- Anderson Smith & Wike PLLC provides audit services to 75 public school districts across North Carolina making us the largest provider of school district audits in the State. In addition, we are the only firm in the State whose primary focus is auditing school districts.
- Our firm teaches classes annually at the North Carolina Association of School Business Officials' Annual Conference and for the last four years was the only firm to do so.
- Our firm prepares Annual Comprehensive Financial Reports (ACFRs) for over 20 school districts, and they all have received an award for excellence in financial reporting.
- We will be available throughout the year for routine consultation and to offer assistance with any accounting and auditing issues that arise. We do not believe in “nickel and diming” our clients for these routine consultations and do not charge extra for providing this service unless a significant time commitment becomes necessary, at which time we would consult with management before beginning such services.

Firm Background

Anderson Smith & Wike PLLC is a full-service accounting firm serving clients throughout North Carolina. With offices in Elon, Gastonia, Huntersville, Rockingham and West End, we are dedicated to providing our clients with professional, personalized services and guidance in a wide range of financial and business needs.

Our firm's seven partners (Ken Anderson, Dale Smith, Shannon Dennison, Andy Deal, Adam Scepurek, Paul Carson, and Vince Quinn) have an average of over 20 years of public accounting experience, with the majority of those years spent focusing on providing services to governmental entities. Our current practice, as you will see in our proposal, includes a strong concentration in audit services provided to governmental entities, particularly school districts. Unlike most firms, governmental audits and related services are the key practice area in our firm and is where we focus the majority of our efforts and training. In addition, Anderson Smith and Wike PLLC is a strong supporter of NCASBO having presented numerous classes at the winter conferences held in Greensboro.

Anderson Smith and Wike PLLC prides itself in customer service. We are able to combine extensive experience and industry specific knowledge with hands-on service to provide a superior level of customer service. At Anderson Smith and Wike PLLC our clients never feel as if they are simply a number, as we value each and every client – no matter how large or how small.



The firm is a member of the North Carolina Association of Certified Public Accountants (NCACPA) and the American Institute of Certified Public Accountants (AICPA). As such, we comply with all peer review requirements of the AICPA.

Services Requested

Anderson Smith & Wike PLLC will provide the following services for Transylvania County Schools:

- Audit of the basic financial statements of Transylvania County Schools for the years ending June 30, 2023, 2024 and 2025 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.
- Preparation of the audited basic financial statements for Transylvania County Schools for the years ending June 30, 2023, 2024 and 2025.
- In conjunction with the audit of the basic financial statements, we will consider Transylvania County School's internal control over financial reporting and test its compliance with certain provisions of laws, regulations, contracts, and grants as required by the OMB Uniform Guidance and the State Single Audit Implementation Act.
- Issuance of a management letter detailing internal control deficiencies, if any, that are noted during the course of the audit of the basic financial statements.
- Preparation of an Audit Committee Letter.

Audit Approach

Our audit approach is designed to make the audit as efficient and effective as possible. We strive to coordinate and schedule the audit such that the day-to-day work flow of the organization's employees is disrupted as little as possible. In addition, our planning and scheduling efforts enable us to complete the audit fieldwork efficiently without needing multiple "return visits" to gather additional information. We feel our extensive audit experience coupled with on-site, partner service is what enables Anderson Smith & Wike PLLC to achieve these efficiencies.

We will utilize standardized Governmental Audit Programs as well as Federal and State Compliance Supplements as published by the applicable Federal grantor agency or North Carolina's Local Government Commission. Our tests will be performed utilizing various sampling techniques as deemed appropriate for the specific objective of the test being performed.



Staffing

Staffing is where Anderson Smith & Wike PLLC rises above the rest. The Transylvania County Schools audit team will include two partners on the account who have over 15 years of accounting experience. In addition, our audit staff are well seasoned governmental and not-for-profit entity auditors. Our staff will not ask questions that leave members of your finance department asking “do these auditors know what they’re doing?” Our highly-experienced auditors will ensure the audit runs smoothly and minimize the disruption of the daily activities of Transylvania County School’s staff.

The number of people (by level) that will work on the audit of Transylvania County School’s basic financial statement audit will be as follows:

Engagement Partner	1
Consulting Partner	1
Staff Accountants	2-3

School Board Audit Clients

Anderson Smith & Wike PLLC is currently serving as auditors for the following 75 of the 115 school districts in the state:

- Alamance-Burlington School System
- Alexander County Schools
- Ashe County Schools
- Asheboro City Schools
- Asheville City Schools
- Avery County Schools
- Bertie County Schools
- Bladen County Schools
- Brunswick County Schools
- Buncombe County Schools
- Cabarrus County Schools
- Caldwell County
- Camden County Schools
- Carteret County Schools
- Caswell County Schools
- Catawba County Schools
- Chapel Hill – Carrboro City Schools
- Jackson County Schools
- Johnston County Schools
- Jones County Schools
- Kannapolis City Schools
- Lee County Schools
- Lexington City Schools
- Lincoln County Schools
- Macon County Schools
- Madison County Schools
- Montgomery County Schools
- Mooresville Graded School District
- Nash-Rocky Mount Public Schools
- Newton-Conover City Schools
- Northampton County Schools
- Onslow County Schools
- Orange County Schools
- Person County Schools



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- Chatham County Schools
 - Cleveland County Schools
 - Clinton City Schools
 - Cumberland County Schools
 - Currituck County Schools
 - Dare County Schools
 - Davidson County Schools
 - Davie County Schools
 - Duplin County Schools
 - Durham Public Schools
 - Edenton City/Cowan County Schools
 - Elizabeth City-Pasquotank Schools
 - Gaston County Schools
 - Gates County Schools
 - Graham County Schools
 - Granville County Schools
 - Halifax County Schools
 - Haywood County Schools
 - Hickory City Schools
 - Hoke County Schools
 - Polk County Schools
 - Randolph County Schools
 - Richmond County Schools
 - Rowan Salisbury Schools
 - Roanoke Rapids City Schools
 - Rockingham County Schools
 - Rutherford County Schools
 - Sampson County Schools
 - Scotland County Schools
 - Stanly County Schools
 - Surry County Schools
 - Tyrrell County Schools
 - Union County Public Schools
 - Warren County Schools
 - Washington County Schools
 - Watauga County
 - Wayne County Public Schools
 - Weldon City Schools
 - Wilson County Schools
 - Yadkin County
 - Yancey County Schools

Additional Professional Services

Our auditors have provided additional professional services to numerous governmental and not-for-profit entities throughout their careers. A brief listing of these past engagements follows.

- Analysis of ABC Transfers
- Agreed-Upon Procedures Engagements
- Assistance with GASB 34 Implementation
- Assistance with GASB 75 (OPEB) Implementation
- Assistance with ASBO and GFOA Submissions
- Bank Reconciliations
- Bookkeeping Services
- Budget Consultation and Assistance
- Capital Asset Reconciliation
- Capital Asset Software Consulting
- Fraud Investigations



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- Internal Control Assessments
 - Modification to Accounting Policies and Procedures Manual
 - Meeting with County Commissioners
 - School Bookkeeper Training
 - PTO/PTA/Booster Club Training
 - Training for Board of Education members
 - Assistance with Sales Tax Refund Claims
 - Setup of Fund 8 – Other Special Revenue Fund
 - ORBIT attestation services

Key Audit Team Members

Shannon Dennison, CPA – Engagement Partner

Shannon began her accounting career in 2006 and has spent the majority of her career in public accounting, including gaining experience at BDO, USA, and has been the Finance Officer for both Caswell County Schools and Alamance-Burlington School System. She has experience with single audits, special grants, fixed asset issues, and other areas that pertain to governmental entities. As a former Finance Officer, she also holds a unique perspective allowing her to better understand and relate to the issues facing school Finance Officers on a daily basis. While a Finance Officer, Shannon was a member of NCASBO, SASBO, was a NC Emerging Leader, School Business Modernization Team Member, and on a Career and Technical Education Advisory Committee.

Shannon has experience on the audits of the following governmental and not-for-profit entities:

Alexander County Schools
Ashe County Schools
Asheville City Schools
Avery County Schools
Buncombe County Schools
Caldwell County Schools
Foothills Region Council of Government
Macon County Schools
Mooresville Graded School District
Newton-Conover City Schools
Randolph County Schools
Rowan Salisbury School System
Southwestern Council of Government



Surry County Schools
Thomasville City Schools
Warren County Schools
Watauga County Schools
Town of Lake Santeetlah
Town of Princeville
Town of Rural Hall
Town of Taylortown
Land of Sky Regional Council
Lincoln County Rotary Student Loan Fund
Lincoln County Education Foundation

Adam Scepurek, CPA – Consulting Partner

Adam began his career with Dixon Hughes PLLC in 2000 and joined Anderson Smith & Wike PLLC in 2012. He has focused on audits of school boards for the past 22 years. He has concentrated primarily in the area of auditing and has developed a strong proficiency in financial reporting and auditing standards along with an extensive grasp of governmental accounting, state and federal compliance requirements and business management. Adam has been involved in the audits of numerous Boards of Education of various sizes ranging from districts with fewer than 5 schools all the way up to 50+ schools. Adam has broad experience with single audits, special grants, school food service operations, creation of Fund 8 – Other Special Revenue Fund, fixed asset issues, and other areas as they pertain to boards of education and individual schools.

Adam has experience on the audits of the following boards of education:

Moore County Schools
Richmond County Schools
Montgomery County Schools
Harnett County Schools
Brunswick County Schools
Beaufort County Schools
Carteret County Schools
Northampton County Schools
Scotland County Schools
Lee County Schools
Bladen County Schools
Chatham County Schools
Cabarrus County Schools
Halifax County Schools



Roanoke Rapids Graded Schools
Orange County Schools
Union County Schools
Duplin County Schools
Clinton City Schools
Johnston County Schools
Graham County Schools
Caswell County Schools
Sampson County Schools
Yancey County Schools
Currituck County Schools
Wilson County Schools
Wayne County Public Schools
Asheboro City Schools

Educational Background and Professional Memberships of Audit Partners

Shannon Dennison, CPA

Education

Grand Canyon University, Bachelor of Business Administration in Accounting, 2006

William Howard Taft University, Masters in Taxation, 2012

University of Notre Dame, Advanced Executive Certificate-Business Administration, 2012

Memberships

Member of the AICPA

Member of the NCACPA

Recent Continuing Education Relevant to School Board Audits

NC Local Government Auditing, Reporting & Review

Federal Government Auditing

Government Accounting

Update on CARES Act Developments

Appalachian State Accounting Summit

DPI Financial and Business Services Summer Conference

Accounting for the new lease standard

Accounting & Financial Reporting – COVID-19 & The CARES Act

Auditing fraud risk in the current environment

Impact of GASB activities on state and local government

Performing a Single Audit and Uniform Guidance

Risk assessment today



NCASBO Instructor – Fixed Assets, Audit Documentation for Individual Schools
Ethics for NC CPA's

Adam Scephurek, CPA

Education

UNCW, Bachelor of Science in Accountancy, 1999
UNCW, Masters of Science in Accountancy, 2000

Memberships

Member of the AICPA
Member of the NCACPA

Recent Continuing Education Relevant to School Board Audits

NC Local Government Auditing, Reporting & Review
Fundamental Principles of Governmental Auditing
Accounting and Reporting COVID-19 and Cares Act
Accounting and Financial Reporting COVID-19 and Cares Act
Governmental Auditing – Performance Audits
Governmental Auditing – Audits, Attestation and Reviews
New Audit Standard – SAS #'s 142-143
Ethics for NC CPAs
Governmental GAAP – Fund Accounting
Internal Control and Fraud Detection: Practical Guide
Yellow Book: Revised Governmental Auditing Standards
Yellow Book Update
Accounting for Pension and Post Retirement Benefits

Professional Experience of Assigned Personnel

Our auditors have experience in auditing the following governmental funds, federal programs, and state programs:

- Funds
 - General Fund
 - State Public School Fund
 - Federal Grants Fund
 - Current Expense Fund
 - Capital Outlay Fund
 - School Food Service Fund
 - Child Care Fund
 - Other Special Revenue Fund



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- Permanent Fund
 - Scholarship and Agency Funds
 - Federal Programs
 - Child and Adult Care Food Program
 - Child Nutrition Cluster
 - Language Acquisition Grants
 - Title I Cluster
 - Special Education Cluster
 - Supporting Effective Instruction State Grant
 - Career and Technical Education
 - Head Start
 - 21st Century
 - Reading First
 - Early Reading First
 - Workforce Investment Act
 - Magnet Schools
 - Upward Bound
 - Migrant Education
 - Title II, Math and Science Partnership
 - Impact Aid
 - Various ARRA Grants
 - FEMA
 - USDA
 - COVID-19 Relief Funds
 - State Programs
 - State Public School Fund
 - School Technology
 - Driver Training
 - Career and Technical Education
 - Textbooks
 - North Carolina Pre-K Program
 - Smart Start
 - Public School Building Bonds
 - Public School Building Capital Fund
 - Public School Capital Fund – Lottery
 - State Buses Appropriation
 - COVID-19 Relief Funds



Peer Review

Anderson Smith & Wike PLLC is a member of the North Carolina Association of Certified Public Accountants (NCACPA) and the American Institute of Certified Public Accountants (AICPA). As such, we comply with all peer review requirements of the AICPA. As such, we comply with all peer review requirements of the AICPA and have included a copy of our most recent peer review letter. A copy of our most recent peer review letter can be found on page 14.

Independence Policy

Anderson Smith & Wike PLLC has implemented an independence policy in accordance with AICPA and Government Auditing Standards requirements as found on page 15.

Liability Insurance Coverage

Anderson Smith & Wike PLLC has a standard professional liability insurance policy. We feel our liability insurance coverage is sufficient.

Tentative Schedule

We will coordinate the exact scheduling of fieldwork with the Finance Officer. However, the following schedule is anticipated:

Audit Planning and Compliance Procedures	March-May
Final Audit Fieldwork.....	August
Draft of Financial Statements Available.....	September
Issuance of Audit Report	October



Fee Quote

We commit to the following fee for the audit of the basic financial statements of Transylvania County Schools and financial statement preparation services.

<u>Year Ending June 30,</u>	<u>Total</u>
2023	\$ 30,000
2024	\$ 31,000
2025	\$ 32,000

Any additional non-attest services requested by management (such as assistance with application of new accounting standards) would be billed at our standard hourly rates. Ordinary and necessary out of pocket expenses will be billed in addition to the above fees.

As part of our audit we prepare a budget of anticipated time to be spent on each individual part of the audit. We utilized the budget from our past audit experience to prepare our budget for the audit of the basic financial statements of Transylvania County Schools. Accordingly, our proposed audit fee is based on our budget. The above quoted fees are binding only upon written notification of acceptance from Transylvania County Schools and are cancellable at any time until such notification is received.

Listed below is a summary of our hourly budget by audit area.

	<u>Partners</u>	<u>Staff</u>	<u>Total</u>
Audit planning	12	15	27
Compliance	10	30	40
Risk assessment	10	10	20
Year-end fieldwork	45	110	155
Report preparation	20	35	55
Review, finalization, meetings	13	5	18
	<u>110</u>	<u>205</u>	<u>315</u>
Hourly Rate	\$ <u>140</u>	\$ <u>90</u>	
Budgeted cost	\$ <u>15,400</u>	\$ <u>18,450</u>	\$ 33,850
Discount offered to Transylvania County Schools			<u>(3,850)</u>
Fee quote			\$ <u>30,000</u>



If we encounter any unexpected circumstances outside the normal scope of the audit or if the scope of the audit is modified, we will consult with the management of Transylvania County Schools prior to performing any procedures that would require additional billings.

We will be available throughout the year to offer assistance with any accounting and auditing issues that arise, to provide general consultation, and to provide any additional services that may be requested providing the requested services are not prohibited under our professional independence standards. If any of these consultations or services requires additional billings, we will consult with management prior to beginning such work.

Information to be Included in the Management Letter

Certain items are required by our professional standards, the State Single Audit Implementation Act, and the OMB Uniform Guidance to be reported to management. We will conform with these requirements. Any items noted during the audit for potential inclusion in the management letter will be discussed in detail with the Finance Officer prior to issuance.

References

We encourage you to contact the Finance Officer at any of the school districts listed above as we are confident that all of the districts we audit are satisfied with our services. However, we've included a few Finance officers below with their contact information for your convenience.

- **Angie Cook**, Finance Officer
Macon County Schools
angie.cook@macon.k12.nc.us
828-524-3314
- **Georgia Harvey**, Chief Financial Officer
Asheville City Schools
georgia.harvey@acsgmail.net
828-650-6104
- **Sharon Mehaffey**, Finance Officer
Alexander County Schools
smehaffey@alexander.k12.nc.us
828-632-7001

Report on the Firm's System of Quality Control

To the Partners of Anderson Smith & Wike, PLLC and the
Peer Review Committee, Coastal Peer Review, Inc.

We have reviewed the system of quality control for the accounting and auditing practice of Anderson Smith & Wike, PLLC (the firm) in effect for the year ended March 31, 2022. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review.

Required Selections and Considerations

Engagements selected for review included engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act, and an audit of an employee benefit plan.

As part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Anderson Smith & Wike, PLLC in effect for the year ended March 31, 2022, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Anderson Smith & Wike, PLLC has received a peer review rating of *pass*.

Dean Dorton Allen Ford, PLLC

Dean Dorton Allen Ford, PLLC

August 4, 2022

ANDERSON SMITH & WIKE PLLC

I. INDEPENDENCE, INTEGRITY AND OBJECTIVITY

It is the policy of our firm that all professional personnel be familiar with and adhere to the independence, integrity and objectivity rules, regulations, interpretations, and rulings of the AICPA, the North Carolina State Board of Accountancy, the North Carolina Association of Certified Public Accountants and state statutes. Furthermore, it is the policy of our firm that, for engagements that are subject to Government Auditing Standards and other regulatory agencies, all professional personnel be familiar with and adhere to the independence rules included in those standards and that personnel will always act in the public interest. In this regard, any transaction, event, circumstance, or action that would impair the firm's independence or violates its integrity and objectivity policy, on a compilation, review, audit, or attestation (including forecast and projection) engagement is prohibited. Additionally, when the firm and its professional personnel encounter situations that raise independence concerns, but such situations are not specifically addressed by independence, integrity, and objectivity rules, the firm will evaluate the situation by referring to the Conceptual Framework for AICPA Independence Standards and applying professional judgment to determine whether independence, in fact or appearance, is affected.

Although not necessarily all-inclusive, the following are considered to be prohibited transactions and relationships:

1. Investments by any owner or professional employee in a client's business during the period of a professional engagement, including a commitment to acquire any direct or material indirect financial interest in a client.
2. An investment in an entity or property by any of the following individuals and the client (or the client's officers or directors, or any owner who has the ability to exercise significant influence over the client) that enables them to control (as defined by GAAP for consolidation purposes) the entity or property:
 - a. An individual on an attest engagement team.
 - b. An individual in a position to influence the attest engagement by doing any of the following:
 - i. evaluating the performance or recommending the compensation of the attest engagement member,
 - ii. directly supervising or managing the attest engagement member and all of that member's superiors,
 - iii. consulting with the attest engagement team about technical or industry-related issues specific to the engagement, or

- iv. participating in or overseeing quality control activities, including internal monitoring, with respect to the attest engagement.
 - c. A member or manager who provides nonattest services to the attest client beginning once he or she provides ten or more hours of nonattest services to the client within any fiscal year and ending on the later of the date:
 - i. the firm signs the report on the financial statements for the fiscal year during which those services were provided, or
 - ii. he or she no longer expects to provide ten or more hours of nonattest services to the attest client on a recurring basis.
 - d. A member in the office in which the lead attest engagement partner primarily practices with respect to the attest engagement.
- 3. Borrowing from or loans to a client, or client's personnel, during the period of a professional engagement by any of the individuals listed in items 2.a.-d.
 - 4. Accepting or offering gifts or entertainment from or to a client unless reasonable in the circumstances and approved by the managing member.
 - 5. Certain family relationships between professional personnel and client personnel. (Consult the managing member for a ruling on these.)

Notwithstanding the preceding policy and list of prohibited transactions and relationships, at the managing member's discretion, certain prohibitions can be waived if it is deemed to be in the best interest of the firm. However, in so doing, the engagement service performed for the client must be limited to that allowed by AICPA professional literature.

The procedures listed below are followed to ensure compliance with this policy:

- 1. All professional personnel are required to sign a representation letter when hired (and annually thereafter) that acknowledges their familiarity with the firm's independence, integrity, and objectivity policy and procedures. Independence and ethics training is provided for all personnel at least every three years. Such training covers the firm's independence and ethics policies and procedures and the independence and ethical requirements of all applicable regulators.

2. All professional personnel are required to notify the managing member of any potential prohibited transaction or violation of an independence, integrity or objectivity rule as soon as they become aware of such a situation. To acknowledge that responsibility, all professional personnel are required when hired (and annually thereafter) to sign a representation letter and to list known situations that could impair independence or that violate the firm's integrity and objectivity policy. (The firm library contains the authoritative rules on independence, integrity and objectivity that govern our firm. That literature and the advice of the managing member should be consulted when an employee is not sure if a transaction, event, circumstance, or action should be reported.)
3. All professional personnel are required to review the firm's client list annually for possible violations. The list of clients is maintained by the managing member and additions to the list are entered as soon as new clients are accepted. When hired (and annually thereafter), all professional personnel are required to sign a representation that confirms this responsibility.
4. If our firm is engaged as principal auditor and another firm is engaged to audit a subsidiary, branch, division, governmental component unit, or to perform procedures on an element or account grouping within a client's financial statement, the engagement team is required to obtain a written representation regarding the other firm's independence with respect to our client. The auditing manuals used by the firm contain examples of representation letters to use in such situations. Furthermore, in a review or attestation engagement, if another firm performs work on a segment of the engagement, a representation (either written or oral) regarding the other firm's independence is required. The engagement programs in the accounting and auditing manuals used by our firm contain steps to ensure compliance with this procedure.
5. The engagement member (or the in-charge accountant) has the primary responsibility for determining if there are unpaid fees on any of his clients that would impair the firm's independence. The engagement work programs and standard forms used by the firm contain steps to ensure compliance with this procedure. The firm's client accounts receivable listing and the engagement member's knowledge of unbilled fees should be considered in making this determination. In addition, the managing member has secondary responsibility to review the firm's accounts receivable listing on a periodic basis to identify potential independence problems.
6. The engagement member has the primary responsibility to identify all nonattest services performed for an attest service client [including services performed by entities closely aligned through common employment] and for determining if such nonattest services impair independence with respect to that client. Reviewing nonattest services performed for attest clients includes obtaining and documenting an understanding with the client regarding the client's responsibilities for the nonattest services performed by the firm. Where applicable, this includes determining whether such nonattest (nonaudit) services impair independence under the independence rules in Government Auditing Standards for ongoing, planned, and future audits. Firm engagement work programs for all attest, as well as compilation engagements, include steps to ensure compliance with this procedure.

7. The engagement member has the primary responsibility for determining whether actual or threatened litigation has an effect on the firm's independence with respect to the client. The firm's independence could be impaired by litigation (a) between the client and the firm, (b) with the client company's securities holders, and (c) from other third parties.
8. If our firm is engaged as principal auditor to report on the basic financial statements of a financial reporting entity, all professional personnel must be independent of the financial reporting entity. If our firm is engaged as principal auditor to report on a major fund, nonmajor fund, internal service fund, fiduciary fund, or component unit of the financial reporting entity, all professional personnel must be independent of the fund or entity the firm reports on. The engagement member has the primary responsibility for determining whether the firm's relationship with entities in the governmental financial statements has an effect on independence.
9. The managing member has the primary responsibility for determining whether the firm was a party to a cooperative arrangement with a client that was material to the firm or the client.
10. The managing member is responsible for obtaining the representation letters, reviewing for completeness, and for resolving questions relating to independence, integrity, and objectivity matters (including questions from the representation letters and those from other sources) and is available to provide guidance. In so doing, the managing member should, when necessary, consult the AICPA or the North Carolina Association of Certified Public Accountants for assistance in interpreting independence, integrity and objectivity rules. Documentation of the resolution of an independence, integrity and objectivity matter should be filed in the client's permanent workpaper files. The managing member is also responsible for determining actions to be taken when professional personnel violate firm independence policies and procedures. The action for each incident is determined based on its unique circumstances and may include eliminating a personal impairment, additional training, reprimand letter, or termination.
11. The managing member is also responsible for monitoring the firm's independence of attest clients at which owners or other senior personnel have been offered management positions or have accepted offers of employment. The independence, integrity, and objectivity questionnaire used by the firm and the client acceptance checklists used by the firm in attest engagements include questions to help ensure compliance with this requirement.
12. To ensure that independence is properly considered at the engagement level, the work programs and standard forms in the accounting and auditing manuals used by the firm contain steps that require a determination of independence on each new and recurring client. Furthermore, these manuals contain reporting guidance for those types of engagements where a lack of independence is allowed.
13. At least annually, the managing member reviews our independence, integrity, and objectivity policy and procedures to determine if they are appropriate and operating effectively. This review is performed and documented by reviewing the applicable section of the "Monitoring Questionnaire" in Chapter 12 of PPC's Guide to Quality Control. Changes, if necessary, to the system are made based on the results of the review.