

## **21 NCAC 08N .0402 INDEPENDENCE**

(a) A CPA, or the CPA's firm, who is performing an engagement in which the CPA, or the CPA's firm, will issue a report on financial statements of any client (other than a report in which lack of independence is disclosed) shall be independent with respect to the client in fact and appearance.

(b) Independence is impaired if, during the period of the professional engagement, a covered person:

- (1) had or was committed to acquire any direct or material indirect financial interest in the client;
- (2) was a trustee of any trust or executor or administrator of any estate if such trust or estate had or was committed to acquire any direct or material indirect financial interest in the client; and
  - (A) the covered person (individually or with others) had the authority to make investment decisions for the trust or estate;
  - (B) the trust or estate owned or was committed to acquire more than 10 percent of the client's outstanding equity securities or other ownership interests; or
  - (C) the value of the trust's or estate's holdings in the client exceeded 10 percent of the total assets of the trust or estate;
- (3) had a joint closely held investment that was material to the covered person; or
- (4) except as permitted in the AICPA Professional Standards Code of Professional Conduct and Bylaws, had any loan to or from the client or any officer or director of the client, or any individual owning 10 percent or more of the client's outstanding equity securities or other ownership interests.

(c) Independence is impaired if during the period of the professional engagement, a shareholder, a member, a partner or professional employee of the firm, his or her immediate family and close relatives, (as defined in the AICPA Code of Professional Conduct and Bylaws) or any group of such persons acting together owned more than five percent of a client's outstanding equity securities or other ownership interests.

(d) Independence is impaired if, during the period covered by the financial statements, or during the period of the professional engagement, a shareholder, a member, a partner, or professional employee of the firm was simultaneously associated with the client as a:

- (1) director, officer, employee, or in any capacity equivalent to that of a member of management;
- (2) promoter, underwriter, or voting trustee; or
- (3) trustee for any pension or profit-sharing trust of the client.

(e) For the purposes of this Rule "covered person" is

- (1) an individual on the attest engagement team;
- (2) an individual in a position to influence the attest engagement;
- (3) a partner or manager who provides non-attest services to the attest client beginning once he or she provides 10 hours of non-attest services to the client within any fiscal year and ending on the later of the date:
  - (A) the firm signs the report on the financial statements for the fiscal year during which those services were provided; or
  - (B) he or she no longer expects to provide 10 or more hours of non-attest services to the attest client on a recurring basis;
- (4) a partner in the office in which the lead attest engagement partner primarily practices in connection with the attest engagement;
- (5) the firm, including the firm's employee benefit plans; or
- (6) an entity whose operating, financial, or accounting policies can be controlled (as defined by generally accepted accounting principles (GAAP) for consolidation purposes) by any of the individuals or entities described in Subparagraphs (1) through (5) of this Paragraph or by two or more such individuals or entities if they act together;

(f) The impairments of independence listed in this Rule shall not be interpreted to be an all inclusive list.

*History Note: Authority G.S. 55B-12; 57D-2-02; 93-12(9);  
Eff. April 1, 1994;  
Amended Eff. February 1, 2011; April 1, 2003;  
Readopted Eff. February 1, 2016.*