



NEVADA STATE BOARD OF ACCOUNTANCY

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October 5, 2017

AICPA Professional Ethics Executive Committee
Professional Ethics Division
American Institute of Certified Public Accountants (AICPA)
By e-mail to: Ethics-ExposureDraft@aicpa-cima.com.

Re: Proposed Ethics Interpretation, "Long Association of Senior Personnel With an Attest Client"

Dear Ladies and Gentlemen:

We have just become aware of the AICPA Professional Ethics Division's Proposed Interpretation entitled "Long Association of Senior Personnel With an Attest Client," dated July 14, 2017, and we request that this response be given consideration in the due process.

We are the governmental agency holding the authority and responsibility to regulate the practice of public accounting in the state of Nevada. We are in receipt of a copy of a comment letter (not yet uploaded on the AICPA's website) issued September 28, 2017, by one of our Nevada-based regional licensee firms, Piercy Bowler Taylor & Kern, Certified Public Accountants (PBTk). We share all of the concerns of PBTk as set forth in its September 28th letter and, accordingly, we would like to add the weight of this Board's opposition to the proposal and join PBTk (and the AICPA's PCPS Technical Issues Committee, comment letter no. 4) in advocating its total and permanent withdrawal. Like most (or all) state regulators, we fully embrace the AICPA *Code of Professional Ethics*, but we would find ourselves hard-pressed to support or enforce such a proposal.

We are not repeating all of the detail contained in the PBTk letter but merely summarizing some of its highlights.

It's a verifiable fact that in over 100 years, there has never been a disciplinary case brought based on the duration of a client relationship. Except for two disciplinary cases discussed in the PBTk letter that were brought in 2016 by the SEC, both of which were based on highly inappropriate behavior, not long relationships, there has never been another case brought about "close personal relationships." Despite the foregoing, we see the erroneous view that such a proposal is necessary, as deeply grounded in several false premises and biases:

- (1) That a long association with an attest client should be viewed as a familiarity threat without regard to the nature of the relationship and the behavior associated with it,
- (2) That CPAs typically cannot be trusted to have the strength of character to avoid over long periods of time inappropriate behavior that crosses the line between a legitimate business/professional and a close personal relationship,
- (3) That a so-called "fresh look," as would be afforded by rotating partners or firms, would contribute more to audit quality than the accumulation over time of intimate knowledge and understanding of a client's business and industry, the risks associated with it, and the open, unfiltered client communications that naturally derive from a build-up over years in management's trust of the auditor.

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The insertion of language into our ethical codes and regulations will cause many to expend much time and energy justifying relationships that pose no threat, will drive some to use rotation as a so-called "safeguard" (thus sacrificing audit quality) and will discourage others unnecessarily from continuing such relationships. Peer reviewers, litigants, regulators or other adversaries will put pressure on firms challenging their good faith judgments in this regard. Since smaller practice units depend for their inflow of new business on such relationships (they don't have huge reputations or multi-million dollar marketing budgets), the effect of this proposal, and anything that may likely evolve from it, will be to push many smaller practice units out of the attest business.

This proposal suggests using rotation as a safeguard against what amounts to little more than an imaginary threat. It appears quite likely to be setting the stage to move in the direction of mandating rotation, either at the partner or firm level, in the future, an ill-advised step that would undoubtedly diminish audit quality and add to the number of audit failures, most of which occur in the first two years due to insufficient experience with the client's operations. Most audit failures occurring thereafter are not a result of inadequate professional skepticism due to the familiarity threat but rather of such things as undue fee or deadline pressure or disputes over accounting issues that lead to opinion shopping.

In short, it is clear to us that adopting such a proposal would benefit no one and have only adverse consequences most of which are virtually certain and severe.

Sincerely,

A handwritten signature in black ink, appearing to read "Viki A. Windfeldt". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Viki A. Windfeldt
Executive Director