



OAG

Office of the Auditor General

201 N. Washington Square, Sixth Floor • Lansing, Michigan 48913 • Phone: (517) 334-8050 • audgen.michigan.gov

Doug A. Ringler, CPA, CIA
Auditor General

October 16, 2017

Ms. Ellen Gorla CPA, CGMA
Professional Ethics Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York, 10036

Dear Ms. Gorla:

We have reviewed the AICPA Professional Ethics Division Exposure Draft of the proposed interpretation entitled *State and Local Government Entities (formerly Entities Included in State and Local Government Financial Statements)* and agree with most of the provisions.

The one issue that we disagree with is the proposed provisions of paragraph 1.224.020.06 in which an auditor must still be independent of material funds and component units that are included in the financial statements of an attest client even when the member makes reference to another auditor's report over the applicable funds or component units. Rather, we agree with the existing interpretation that engaging an independent member to conduct the audit of a material fund or component unit provides third parties with assurance that the member has properly addressed threats to independence. This reliance on another independent member is the primary safeguard to governmental audit organizations to remedy threats to independence in fact or in appearance. The proposed interpretation does not provide the necessary guidance to inform government audit organizations what safeguards can be applied once they identify a threat to independence from a material fund or component unit, yet are legally required to conduct the audit of the primary government.

Regarding the Request for Specific Comments, our responses are included below:

1. Are there any situations in which you believe the framework proposed will not reach the appropriate answer for the general fund? If so, please explain the situation and why you believe the appropriate answer would not be reached.

No, we do not anticipate any situations would not reach the appropriate answer for the general fund.

2. Paragraph .03 of the proposed revised interpretation notes that when an interpretation of the "Independence Rule" (ET sec. 1.200.001) is applied in a state or local government environment and the interpretation uses terminology that is not applicable in this environment, the member should use their professional judgement to determine if there is an equivalent term and provides an example of one such situation in which PEEC believes this could occur. Are there any other terms or concepts included in the interpretations to the independence rules that PEEC should highlight as an example or consider providing additional application guidance for?

No, we have no suggested terms to highlight.

3. Are the entities that would be included in the proposed definition of a primary government in paragraph .04a the entities that should be evaluated for independence purposes? If not, what entities should be evaluated for independence

October 16, 2017

purposes, and should the term primary government be used to describe these entities?

Yes, we agree that the entities described in paragraph .04a are appropriate.

4. PEEC believes that the criteria necessary to undertake the "more than minimal influence evaluation" in paragraph .14 is already available to the auditor as a result of other audit procedures. Do you believe that there are circumstances in which this information is not readily available to the auditor? If so, provide examples of circumstances in which a member may have difficulty in performing this evaluation.

No, we cannot think of any situations where the information would not be readily available.

5. The "more than minimal influence over the accounting or financial reporting process over that fund or component unit" concept would require an analysis that is intended to be different than the analysis required for determining which entities are in a primary government's financial reporting entity. In the context of the proposed guidance, is that objective clear? If not, how would you better describe the analysis?

We consider the language as sufficiently clear and have no suggested revisions.

6. Paragraph .13 provides a "best efforts" provision that addresses those situations in which a member is unable to obtain the information necessary to identify investments held by a financial statement attest client. Are there any other situations in which you believe a best efforts provision would be necessary, either upstream or downstream, because the financial statement attest client may have difficulty identifying all the entities required to be included in the financial reporting entity?

We are not aware of any other situations in which a "best efforts" provision is necessary.

7. Is it clear that the interpretation does not apply to an entity that provides grant funds to the financial statement attest client (or vice versa) unless that entity is a fund or component unit that would otherwise be covered by the interpretation? If not, provide examples of situations in which you believe additional guidance is needed.

Yes, we consider the interpretation clear on this matter.

We appreciate the opportunity to comment on this exposure draft. Should you have any questions or desire further details on our comments, please contact me or Craig M. Murray, Director of Professional Practice.

Sincerely,



Doug Ringler
Auditor General

c: Craig M. Murray, CPA, CIA

Via email