



October 16, 2017

Via email to Ethics-ExposureDraft@aicpa-cima.com

Professional Ethics Executive Committee
Professional Ethics Division
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707

Re: Exposure Draft (ED), *State and Local Government Entities (formerly Entities Included in State and Local Government Financial Statements)*.

Dear Members of the Professional Ethics Executive Committee:

The Illinois CPA Society Ethics Committee is pleased to provide comments on the Professional Ethics Executive Committee's (PEEC) proposal related to the interpretation "State and Local Government Entities" (ET sec. 1.224.020), a conforming revision to the definition of a financial statement attest client (ET sec. 0.400.16) and revision to "The Plan Is an Attest Client or Is Sponsored by an Attest Client" interpretation (ET sec. 1.250.010) entitled *State and Local Government Entities (formerly Entities Included in State and Local Government Financial Statements)* (the "exposure draft")...

Request for Specific Comments

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.

The general fund is always a major fund and thus should be material. Therefore, we believe that the proposed framework should be sufficient and result in an appropriate answer.

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?

We believe the example sufficiently demonstrates the intent the PEEC is trying to achieve. We are not aware of other terms or concepts included in the independence interpretations that should be highlighted or additional application guidance that is necessary.

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

We believe the definition of primary government is appropriate and reflects those entities that should be evaluated.

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.

We believe that this information should be generally readily available to the auditors.

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 believe that the objective clear.

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 typically perform an analysis of the potential component units (PCU) and funds and obtain an understanding of why management had included or excluded various PCUs and funds in or from the financial statements and review supporting documentation to determine if this is correct. Based on these procedures and our assessment of all the material funds or component units we believe that we have sufficient evidence that appropriate component units and funds have been properly included in the financial reporting process. Therefore, we believe that the best effort concept does meet the intent of the standard and are not aware of other situations where a best efforts provision is needed.

However; we would recommend that the Committee consider revising paragraph .13 use of “should” for “must” to conform to the Code’s drafting conventions:

.13 A member must ~~should~~ expend best efforts to obtain the information necessary to identify these investments. If, after expending best efforts, a member is unable to obtain the information to determine the investments of the financial statement attest client, threats would be at an acceptable level and independence would not be impaired ...:

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.

Although this is clear in the introductory material of the exposure draft, we believe that it has not been clearly stated in the actual guidance. We suggest that PEEC add more explicit language to the interpretation related to this guidance.

Additional Comment

In addition to our comments above, we believe that it not exactly clear who the nonattest services are being provided in par. 08. We recommend that the following language be added to par. 08 to help clarify:

.08 In the situations identified in paragraphs .06–.07 of this interpretation, the member and member’s firm may provide nonattest services that impair independence “to a material fund or component unit” during the period of the professional engagement or during the period covered by the financial statements, provided that it is reasonable to conclude ...

Respectfully Yours,



Larry Horwich
Chair, Ethics Committee
Illinois CPA Society



Randy Sylvan
Vice Chair, Ethics Committee
Illinois CPA Society



Phillip Austin
Member, Ethics Committee
Illinois CPA Society