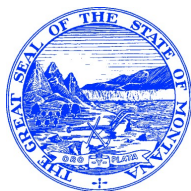


LEGISLATIVE AUDIT DIVISION

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AICPA Professional Ethics Executive Committee
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To whom it may concern:

We appreciate the opportunity to respond to the PEEC Exposure Draft on *Proposed Interpretation and Other Guidance: State and Local Government Entities (formerly Entities Included in State and Local Government Financial Statements)*. Members of our staff have read the exposure draft and below is our responses to the specified questions.

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.

Possibly. The proposed interpretation assumes only one upstream entity exists for attest clients. Financial activity of some component units is included in financial reports of multiple primary governments. The General Fund is often administered by multiple agencies, departments or programs within a primary government, potentially requiring the auditors for the attest client to evaluate materiality and influence in a very comprehensive manner. Auditors may place excessive reliance on the client in making these evaluations. In addition, investment considerations may be significant for the General Fund. It is unclear if the proposed investments considerations must extend to the upstream and downstream entities in addition to the attest client. If an attest client has more than minimal influence over a downstream entity, or an upstream entity has more than minimal influence over the attest client, could their combined investments constitute a controlling investment for the purposes of independence considerations? Statute may not grant auditors access to all of the data needed for such an evaluation.

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 clarifying 'primary government' as compared to 'financial reporting entity' may be helpful; these terms are often used interchangeably in practice, but have distinct meanings. As written, the proposed interpretation could be misunderstood and misapplied.

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?

As previously noted, the proposed interpretation assumes only one upstream entity exists for attest clients.

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.

While available to the auditor, governance structures established by law can be cumbersome for auditors to research, especially for those clients who are unable to provide applicable statutory requirements.

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?

Yes, we believe it is 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 believe this question is concerning, and may indicate a different intent than the wording of the proposed interpretation communicates. A client’s inability to identify all of the entities required to be included in their financial reporting entity may constitute a scope limitation. It is unclear why a downstream entity needs to identify all of the entities required to be included in an upstream reporting entity, as the proposed interpretation appears to limit the independence considerations to the upstream primary government.

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 believe it is clear.

If you need any additional information concerning our response, please contact me at (406) 444-3122 or by email at dosmanson@mt.gov.

Sincerely,

/s/ Delsi Osmanson

Delsi Osmanson, Senior Auditor
Financial-Compliance Audits

By E-mail