



CliftonLarsonAllen

Ms. Toni Lee-Andrews
Ethics Team
AICPA
220 Leigh Farm Road
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Dear Ms. Lee-Andrews:

We appreciate the opportunity to respond to the July 7, 2017 PEEC Exposure Draft (ED), *Proposed Interpretation and Other Guidance: State and Local Government Entities* (formerly Entities Included in State and Local Government Financial Statements). We further recognize and appreciate the hard work and thoughtfulness the committee put into this effort. We agree with the ED in that the financial reporting objectives are very different between governments and commercial sector entities and believe therefore that application of independence rules for affiliates are not appropriate in the governmental environment. Our responses addressing specific requests follow:

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 intent of the question is unclear in that it focuses on general fund alone. In practice, the application of independence should also be applied to reporting entities that do not report a general fund. In broadening the question to all reporting scenarios, it is unlikely that a practitioner will conclude differently. Because there is little indication that practitioners will come to a different conclusion based on the ED, we do not believe the additional documentation burden imposed by the ED is necessary.

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?

One additional term that PEEC could consider adding is the term primary government versus the reporting entity.

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 list is comprehensive. As noted above, the term primary government may create confusion as it is already defined within the concept of GAAP for governmental entities.

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 we believe the criteria necessary to undertake the “more than minimal influence evaluation” in paragraph .14 is already available to the auditor, we have concerns about paragraph .14’s statement that “there is a rebuttable presumption that the primary government has more than minimal influence”. We believe the statement implies bias and should be excluded.

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 the objective 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 have no comments in this area.

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.

We believe the ED is clear regarding 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.

In conclusion, because it is unclear that this will solve a current or foreseeable practice issue that has resulted in or will result in audit failure; and because it is unlikely that practitioners will come to a different conclusion based on professional judgement as a result of the ED, we believe the ED is unnecessary. Should PEEC determine to issue the ED, we ask that additional implementation time be granted in order for firms to prepare. Many governments enter into multiyear contracts as a result of bid procedures. Should a firm come to a different independence conclusion as a result of the ED, it may create an undue burden on governments who as a result will need to seek other auditors through rebidding the audit. This delay could also result in governments failing to meet regulatory reporting deadlines which could impact their future funding.

We hope you find our replies insightful and of assistance. Thank you for the opportunity to respond.

Sincerely,

CliftonLarsonAllen LLP

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