

November 20, 2017

Mr. Samuel L. Burke  
Chair  
AICPA Professional Ethics Executive Committee  
c/o Professional Ethics Division

Dear Mr. Burke:

Thank you for the opportunity to offer comments in response to the AICPA Exposure Draft (ED), *State and Local Government Entities*, issued in July 2017. This response was prepared by the Governmental Accounting Standards Board's (GASB) staff. A draft of this response was provided to the individual GASB members for their input. Official positions of the GASB are determined only after extensive due process and public deliberation.

The following comments are limited to editorial comments contained in the ED that reference GASB literature; use of terms in the ED that differ from or conflict with how those terms are defined, described, or used in GASB literature; and commentary on current practice that differs from GASB staff observations. As a result, the GASB takes no position on the basic proposals set forth in the ED.

The order of the comments is based on appearance in the ED and therefore, do not represent any order of significance. However, we would be remiss if we did not highlight our strong objection to the materiality proposal introduced in the proposal.

### Background

Page 6—Use of the term “merely” in the penultimate line of the last sentence appears to be pejorative and is not necessary to describe the facts in the sentence. We respectfully request that this word be eliminated from the final text of the interpretation.

Page 7—The first sentence of the first full paragraph. This sentence notes that “SLG financial statements are not consolidated into a single column.” Based on our understanding of current practice, this is not an accurate statement. Many business-type activities, including those with blended component units, are consolidated into a single column. Therefore, we request that this sentence be modified.

Page 8—The first line notes that many state and local governments issue financial statements under reporting frameworks other than GAAP. While we agree that this is an accurate statement regarding local governments, it is not the case for state governments. Therefore, we would request that “state and” be eliminated from this sentence.

Page 8—The second sentence of the third full paragraph notes that “it is not uncommon for a primary government to exclude a fund or component unit.” While situation may be found in some governments that currently are not classified as a state or local government (for example, a tribal government), it is uncommon for a state or local government to omit these activities (especially, the exclusion of funds). Therefore, we request that the phrase “it is not uncommon for” be replaced with “in instances where.”

Page 9—Only sentence of second full paragraph, page 13—only sentence of first paragraph, and reference to the term “de minimis” in first and second paragraphs under Defined Terms on page 14. After the issuance of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, the AICPA requested that the GASB address materiality from the standpoint of financial statement preparation, specifically noting that materiality guidance should be established by accounting standards setters. The GASB responded to the request with the issuance of Questions and Answers 7.4.1 through 7.4.6 in the Implementation Guide No. 2015-1 (Level B authoritative literature). This guidance then was used by the AICPA to establish auditing guidance (opinion units) for the audits of state and local governments.

In establishing materiality considerations regarding independence guidance for private sector entities the AICPA Ethics Executive Committee did not establish materiality thresholds that differed from considerations found in the preparation of financial statements; therefore, we are deeply concerned that a different approach (reporting entity versus reporting units/opinion units) was introduced for state and local governments in this proposal. There does not appear to be any justification presented in the proposal that supports this difference. We also believe that the introduction of a new approach undermines the accounting guidance established by the GASB. Therefore, we request in the strongest of terms that same materiality thresholds be used for financial reporting and independence assessments.

#### Text of Proposed Interpretation

Paragraph .04 a—The GASB has a long-established definition of a “primary government” in Level A authoritative literature. We do not understand why the AICPA Ethics Executive Committee is proposing to use the same term with a different definition in this interpretation. We believe that the use of the same term in the public sector with different definitions only will result in confusion. Therefore, we request that the either the definition established by the GASB be used or that a term other than primary government be introduced in the final interpretation.


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Paragraph .04 d—The GASB defined “investment” in Statement NO. 72, *Fair Value Measurement and Application*, to identify which securities or other assets should be measured at fair value. There are other assets that are held for income or profit that do not meet the GASB definition of investment, but nevertheless may need to be considered from an independence standpoint. Therefore, we request that the Committee consider expanding the guidance in .11 through .13 to consider assets other than just investments as defined by the GASB. If GASB definition is retained, we request that source of the definition be properly cited.

Paragraph .15—More influence column (I). There is an “or” missing between Fund and component unit.

Thank you for considering our comments. If you have any questions regarding the comments and suggestions contained in this response, please contact me ([drbean@gasb.org](mailto:drbean@gasb.org)).

Sincerely,



David R. Bean  
Director of Research and Technical Activities  
Governmental Accounting Standards Board