

Oct. 6, 2017

Professional Ethics Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas, 19th Floor
New York, NY 10036
Ethics-ExposureDraft@aicpa-cima.com

Re: AICPA PEEC – Proposed Interpretation and Other Guidance – State and Local Government Entities

The Professional Ethics and State and Local Government committees (the committees) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to provide their comments on the proposed interpretation to the AICPA Code of Professional Conduct (the code). The PICPA is a professional association of more than 22,000 members working to improve the CPA profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committees include a cross-section of our membership, with practitioners from large, regional, and small public accounting firms, members serving in business and industry, and accounting educators.

The committees found the exposure document to be well-organized and conceptually sound. We have several specific comments and suggestions to enhance its clarity, which are included below.

Upstream entities with more than a minimal influence over the accounting or financial reporting process of material component units or funds – The committees agree that the auditor of a component unit or fund should apply the independence guidance to upstream entities if the upstream entity can influence the accounting or financial reporting of the component unit or fund and the component unit or fund is material to the upstream entity. However, the committees thought that greater clarity needed to be provided with respect to the concept of the materiality and the threshold of “more than minimal influence” over the accounting or financial reporting process of a fund or component unit.

Materiality – The committees were not certain whether members would have sufficient information to define materiality for the upstream entity, and thought that the proposed guidance could be enhanced to clarify how materiality should be defined (e.g., does this entity include fiduciary funds, is it an entitywide materiality, etc.).

Threshold of “more than minimal influence” over the accounting or financial reporting process of a fund or component unit– The terminology “more than minimal influence” seems to suggest a very low threshold, such that it is unclear why independence would be needed for situations in which there is simply more than minimal influence. The committees suggest using different terminology; for example, a threshold of “the ability to influence the accounting or financial reporting process.”

Assessing influence – The committees note that the factors included in the proposed guidance for assessing the degree of influence of the primary government over funds or component units are not necessarily indicative of the authority that the primary government can exercise, but rather represent the influence that is exerted in practice. For example, whether or not the primary government prepares the financial statements (Para. 14 a) doesn't mean that it doesn't have the authority to do so, which would be more of an indicator of the ability to influence. Regarding Para. 14 e, should the auditor consider whether the primary government exercises significant operational control, or has the authority to control the operations of the fund or component unit? It is not clear whether it is sufficient to only consider the influence exerted in practice instead of the actual authority to influence.

The committees also recommend clarification of the following factors.

- a. Para. 14 e – The term “operational control” is unclear.
- b. Para. 14 g – The committees agree that the ability to add or remove members of the governing board of the fund or component unit “at will” would have a significant degree of influence, but did not believe that the ability to add or remove members based on certain legislative restrictions was a significant factor.

Para. 09 wording – The committees note that the wording in this paragraph is cumbersome. Proposed wording included in Para. 09 – “When a material fund or component unit is a financial statement attest client and is required to be included in another financial reporting entity that is not a financial statement attest client, members should use the conceptual framework for Independence Interpretation to evaluate relationships and circumstances that a member has with a primary government that exerts more than minimal influence over the accounting or financial reporting process of the financial statement attest client.”

Suggested wording – “Members should use the conceptual framework for Independence Interpretation to evaluate relationships and circumstances that the member has with a primary government that is not an attest client if the primary government has the ability to influence the accounting or financial reporting process of a component unit or fund that is a financial statement attest client, and the component unit or fund is material to and required to be included in the financial reporting entity of the primary government.”

Thank you for the opportunity to provide our comments related to the proposed revisions to the Code of Professional Conduct. Feel free to contact the PICPA staff liaison, Allison Henry, at (215) 972-6187, or ahenry@picpa.org with any questions regarding our comments.

Sincerely,



Michael F. Johns, CPA
Chair, PICPA Professional Ethics Committee



Donald J. Pierce, CPA
Chair, PICPA State & Local Government Committee

cc: Allison Henry, CPA, PICPA Staff Liaison