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Comptroller

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Deputy Comptroller

February 25, 2019

Ellen Gorla
Professional Ethics Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

Dear Ms. Gorla:

On behalf of the Tennessee Department of Audit, Division of State Audit, we thank you for the opportunity to comment on the Exposure Draft (ED), *State and Local Government Client Affiliates (formerly Entities Included in State and Local Government Financial Statements)*. We generally agree with the amendments proposed in the ED. However, we do have some suggested improvements for the Professional Ethics Executive Committee's (PEEC) consideration.

Questions for specific comment:

For Question 1 (¶6), we agree that the examples help identify when the Conceptual Framework for Independence might be consulted. However, illustrations similar to those in the initial ED would be helpful for ¶6a and ¶6c to differentiate among the financial attest client, an affiliate, and the non-affiliate. We suggest PEEC consider adding a decision tree flowchart as an exhibit rather than including the narrative only.

In regard to Question 2 (¶3), the proposed guidance is more helpful in identifying affiliates. However, the following example situation might need to be addressed in implementation guidance to the interpretation. For example, in ¶3a.i how would the affiliate/non-affiliate definition apply to a State government (primary government) and its discretely presented component unit university (also its own primary government) and its discretely presented component unit foundation? Material foundations for our universities, as well as the universities themselves, are separate legal entities, and the schools generally do not have more than minimal influence over the accounting process or financial reporting at each stand-alone entity level, but would have that influence at the financial reporting entity level. Thus, at what level is the affiliate definition applicable for the foundation, university, and State government, since all of the criteria have to be present? The criterion in ¶3a.ii.2 might need to clarify at which level the influence resides (i.e., reporting entity only or all levels of the financial reporting process – stand-alone and consolidation, respectfully).

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. For Question 3, we agree the investment guidance is clear. For Question 4, see the response to Question 2 for potential implementation guidance.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz (615) 747-5262 (Gerry.Boaz@cot.tn.gov) or me at (615) 747-5251.

Sincerely,



Deborah V. Loveless, CPA
Director, Division of State Audit