



March 11, 2019

Mr. Samuel L. Burke
Chair
AICPA Professional Ethics Division

Submitted via email to Ethics-ExposureDraft@aicpa-cima.com

Re: Proposed Interpretation, State and Local Government Client Affiliates

Dear Director of Research and Technical Activities:

The Virginia Society of CPAs' (VSCPA) Accounting & Auditing Advisory Committee (the Committee) has reviewed the proposed interpretation, State and Local Government Client Affiliates, issued by the American Institute of Certified Public Accountants Professional Ethics Division (the Division). The VSCPA is a leading professional association with more than 13,000 individual members dedicated to enhancing the success of all CPAs and their profession by communicating information and vision, promoting professionalism, and advocating members' interests. We appreciate the work the Division's Ethics Committee has undertaken on this effort, and the opportunity to respond to this Exposure Draft.

The Committee recognizes the Division's receptiveness to the stakeholder feedback it received relating to the initial exposure draft, Entities Included in State and Local Government Financial Statements, and believes the proposed edits will reduce implementation costs and add clarity. In particular, the Committee supports the clarifications regarding instances when members or member firms make reference to another auditor's report.

The Committee also agrees with the Division's conclusion that the cost of complying with the new requirement for certain upstream entities in paragraph .09 of the initial exposure draft outweighed the benefits derived. As a result, the Committee supports the intent of the Division to reduce the extent of required upstream analysis and to supplant those requirements with member judgement. However, in an attempt to achieve this objective, the proposed interpretation no longer makes clear that there is any requirement to consider upstream affiliate relationships, nor does it provide a framework of criteria or factors to be considered to assist the member in exercising sound judgment during the assessment. The Committee does not believe a list of examples of potential independence threats is sufficient to allow members to adequately and consistently infer the degree of upstream analysis the Division is expecting. If the Division intends to require members to consider upstream relationships, the Committee recommends it convey that requirement more explicitly and provide additional guidance to facilitate an adequate assessment.

Again, the VSCPA appreciates the opportunity to respond to this Discussion Paper. Please direct any questions or concerns to VSCPA Senior Director, Learning, Linda Newsom-McCurdy, CAE, CMP, at lnewsom-mccurdy@vscpa.com or (804) 612-9421.

Sincerely,

Charles M. Valadez, CPA, CGMA, CITP
Chair

2018–2019 VSCPA Accounting & Auditing Advisory Committee

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