



March 11, 2019

Professional Ethics Division  
Via email: [Ethics-ExposureDraft@aicpa-cima.com](mailto:Ethics-ExposureDraft@aicpa-cima.com)

Re: *Proposed Interpretation – State and Local Government Client Affiliates*

We have read and reviewed the second Exposure Draft *Proposed Interpretation – State and Local Government Client Affiliates* (the “Exposure Draft” or “the Draft”) issued by the AICPA Professional Ethics Executive Committee (“PEEC” or the “Committee”). Our comments address the four specific questions posed in the Exposure Draft and are discussed in the following paragraphs.

#### **General Comment**

We believe paragraph .11 relating to materiality would be better placed after the *Applicability* section and before the *Terminology* section. We recognize there is likely a style code utilized by PEEC and other AICPA committees when establishing standards. However, we believe placing the materiality section before the requirements sections will allow members to consider the requirements in the proper perspective.

#### **Question 1 – Circumstances or Relationships with Nonaffiliates**

The examples of circumstances or relationships with nonaffiliates enumerated in paragraph .06 of the Exposure Draft will be helpful when members assess whether the Conceptual Framework for Independence (“the Framework”) is applicable.

#### **Question 2 – Determining Affiliates**

We believe the Terminology section in paragraph .03 provides clear guidance to members on how to determine which entities are affiliates. However, we do not agree with the definition of an entity as defined in paragraph .03 *b* as we believe it is too broad and as such will add undue costs with little benefit to the quality of the audit(s).

Additionally, we believe affiliates should be defined as (1) opinion units which would be government activities, business-type activities, major funds, and nonmajor funds in the aggregate and (2) discretely presented component units. Blended component units are reflected in the opinion units and would not therefore need to be identified as an affiliate under this proposal.

We would like to point out many states require local governments to have their annual financial statements audited by an independent auditor. The requirement for audited statements typically excludes only the smallest of local government. This is problematic for members who audit local governments in rural areas where there may be only one firm or only one firm performing audits of local governments. These circumstances might result in the local government having to engage two or more auditors which would increase the cost of the audit as well as negatively impact audit efficiency in total.

**Question 3 - Investments**

We believe the guidance in *a.i.* of paragraph .03 relating to investments considered affiliates is clear.

**Question 4 – Implementation Guidance**

We believe there should be training on the final interpretation which should be made available to members serving government clients. This training could be in multiple formats and of varying lengths. In addition, such training could be offered to firms who are members of the Government Audit Quality Center and advertised often in the CPA Letter as well as the Journal of Accountancy. The training could also be developed and disseminated by partnering with state auditors and other member organizations serving state and local governments and their auditors.

Your consideration of our comments in this letter would be greatly appreciated.

Sincerely,



Yvonne Clayborne, Chair  
Florida Institute of CPAs  
State and Local Government Committee