



Baker Tilly Virchow Krause, LLP
Ten Terrace Ct
PO Box 7398
Madison, WI 53707-7398

T: +1 (608) 249 6622
F: +1 (608) 249 8532

bakertilly.com

March 1, 2019

AICPA Professional Ethics Executive Committee
Via email: Ethics-ExposureDraft@aicpa-cima.com

Re: Exposure Draft – State and Local Government Client Affiliates

Baker Tilly Virchow Krause, LLP (“Baker Tilly”) appreciates the opportunity to respond to the State and Local Government Client Affiliates Exposure Draft (“ED”).

Baker Tilly is a large accounting firm with approximately 330 partners and 3,100 team members, and is ranked in the top 15 of American CPA firms. Baker Tilly performs approximately 1,000 audits of governmental entities annually. We have drawn on this experience in preparing our response for your consideration.

Thank you to the State and Local Government Client Affiliates Task Force for the significant time and effort committed to this project. We have been closely following this for years and understand and appreciate the significant challenges associated with the project.

We believe this exposure draft is a significant improvement over the first exposure draft for this project. Our firm responded to the first exposure draft and recommend a reduction in prescriptive requirements and an expansion of the conceptual framework for independence, which we believed would appropriately address threats to independence while reducing the operational burden on the CPA firms. We are pleased that the task force incorporated those changes for the entities described as “upstream” in the previous exposure draft. We also believe the wording changes throughout the document to better align with generally accepted accounting principles, the clarification for investments, and the explanatory guidance related to materiality are improvements from the earlier version.

Responses to Request for Specific Comments

- 1. Are the examples of circumstances or relationships with nonaffiliates that could result in the member consulting the “Conceptual Framework for Independence” helpful to assessing when the conceptual framework may be applicable? If not, please provide other suggested examples or circumstances that should be included.**

We believe these examples would be more appropriately placed in a practice aid instead of the interpretation. Although they are introduced as examples with the language “could result in the member consulting the conceptual framework,” by including this level of specificity in the interpretation itself, members may consider it to be an absolute or complete list of situations where application of the conceptual framework is appropriate. This could diminish the member’s thoughtful consideration of facts and circumstances unique to their attest client and its nonaffiliates. Ultimately, there will be various different facts and circumstances for scenarios similar to the examples provided (and other situations not included on the list that would be appropriate to analyze under the conceptual framework). Therefore, we recommend maintaining paragraph .06 generically so there a requirement for members to consider if there are nonaffiliates relationships and circumstances that could also impact independence, but consider moving the specific examples to the practice aid that is in development.

March 1, 2019

Page 2

2. **Does this exposure draft provide clear guidance to the member on how to determine which entities are affiliates to the financial statement attest client? If not, please explain what areas in this exposure draft are unclear.**

Yes, the exposure draft generally provides clear guidance on how to determine which entities are affiliates. We noted that the terminology “nonaffiliates” is not defined anywhere in the ETs or this exposure draft, which the task force may want to further consider. However, we did not encounter challenges with interpreting what was defined for affiliates or assumed for nonaffiliates.

3. **Is it clear that investments will only be considered an affiliate if they are held by the financial statement attest client or by an affiliate under item a.i. of paragraph .03? If not, please provide a suggested clarification on how to make it clear that investments of these two entities only will be considered an affiliate.**

Yes, this is clear.

4. **What implementation guidance do you believe would be helpful for the Ethics Division to develop so that the interpretation can be successfully implemented?**

We believe the development of an implementation guide or practice aid with a decision tree and illustrative examples would be useful for many firms. We encourage the task force to reach out to various stakeholders and firms as part of the development to ensure there is clarity in practical application and the resulting conclusions.

We appreciate the opportunity to provide comments on this exposure draft. Should you wish to discuss any of these comments, please contact David Johnson at david.johnson@bakertilly.com or Heather Acker at heather.acker@bakertilly.com.

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

Baker Tilly Virchow Krause, LLP