



Government Finance Officers Association
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American Institute of Certified Public Accountants, Inc.
Professional Ethics Division
New York, NY 10036-8775

To whom it may concern,

On behalf of the Government Finance Officers Association of the United States and Canada (GFOA), we thank the American Institute of Certified Public Accountants (AICPA) Professional Ethics Executive Committee (PEEC) for the opportunity to comment on the exposure draft (ED), *Proposed Interpretation: State and Local Government Client Affiliates* (formerly *Entities Included in State and Local Government Financial Statements*). This response was prepared by GFOA's standing Committee on Accounting, Auditing, and Financial Reporting (CAAFR), all of whose members are active state and local government finance officers. The following are the CAAFR's responses to the questions listed in the ED.

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.

Response: GFOA believes the examples provided in the ED are helpful and we encourage PEEC to include these and more practical examples in the final interpretation.

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.

Response: GFOA believes that the interpretation should be more explicit in how discretely presented component units are to be evaluated. There appears to be a disconnect between the Explanation of the Proposed Revisions section and the proposed interpretation. The interpretation should include the language from the Explanation of the Proposed Revisions section of the ED: "For discretely presented component units, members will need to evaluate on a case-by-case basis."

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.

Response: GFOA believes the definition 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?

Response: GFOA encourages the use of practical examples of affiliates and nonaffiliates in implementation guidance.

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5. In addition to the responses to questions as listed in the ED, the GFOA is also providing other feedback for PEEC to consider:

The GFOA recommends changing the word “and” to “or” item a.iv.1 of paragraph .03: “...is not trivial **or** clearly inconsequential to the investor’s *financial statements*...”

The GFOA recommends that PEEC provide more clarity and more examples of when a situation where a member is not able to obtain information necessary to identify affiliates requires the member to obtain written assurance from the client as described in item c of paragraph .08.

We encourage the PEEC to incorporate updated flowcharts and tables that were included in the original ED that was issued in July 2017 into the new interpretation document to help users identify affiliates.

The proposed effective date of the proposed interpretation is one year after adoption. The GFOA does not agree with the PEEC’s belief that one year is a sufficient amount of time to implement the proposed interpretation. There are two significant accounting standards that state and local governments are in the process of implementing over the next two years, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, and GASB Statement No. 87, *Leases*. In addition, there are new *Government Auditing Standards* that will become effective in the next year. In situations where threats to independence cannot be lowered to an acceptable level, entities would need to procure new independent auditors. A one-year time period may not be achievable for some entities. Another consideration is that there are entities, such as component units, that have different fiscal years than the primary government. Depending on when the proposed interpretation is effective, an entity may not be able to procure a new independent audit firm, if necessary, in a timely manner. GFOA recommends that the effective date of the proposed interpretation be **two years** after adoption. A two-year time frame would provide entities sufficient time to prepare the necessary documentation required by auditors or to prepare for a potential change in auditors.

Thank you, again, for the opportunity to comment on the exposure draft; we would be happy to respond to any of your questions. Please feel free to contact GFOA’s Director of Technical Services, Michele Mark Levine, by telephone at 312.977.9700 ext. 6101 or email at mlevine@gfoa.org.

Sincerely yours,



Melanie S. Keeton, CPA, Chair
Committee on Accounting, Auditing, and Financial Reporting



Diane B. Allison, CPA, CGFO, Vice-Chair
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