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Washington, DC 20548

May 15, 2017

Ms. Lisa A. Snyder, Director
Professional Ethics Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

GAO’s Response to the American Institute of Certified Public Accountants Professional Ethics Division’s December 2016 Exposure Draft, *Client and Attest Client: Proposed Revised Definitions of Client and Attest Client as Well as Related Definitions, Interpretations, and Other Guidance*

Dear Ms. Snyder:

This letter provides GAO’s comments on the American Institute of Certified Public Accountants (AICPA) Professional Ethics Division’s exposure draft entitled *Client and Attest Client: Proposed Revised Definitions of Client and Attest Client as Well as Related Definitions, Interpretations, and Other Guidance*. GAO promulgates generally accepted government auditing standards, which provide professional standards for auditors of government entities in the United States.

We appreciate the AICPA’s efforts to obtain a wide range of perspectives on important matters relating to professional ethics in the accountability community. We have provided a response to the AICPA’s specific question regarding the location of the reminder to the auditor to comply with the “Integrity and Objectivity Rule” within the proposed revised definition of “Attest Client” as well as some additional comments.

Response to Specific Question

The proposed revised definition of “Attest Client” explains that when the engaging entity is not also the attest client, that the member does not need to be independent of the engaging entity but still must comply with the “Integrity and Objectivity Rule” and its interpretations, consistent with how the current AICPA code treats SSAE engagements with different engaging and subject entities (responsible parties). The committee believes including the reminder in the definition will minimize a member overlooking the requirement to comply with the “Integrity and Objectivity Rule” and its interpretations because it will appear each time the definition is viewed. Do you believe the inclusion of this requirement in the definition is the correct location? If not, please explain where you believe this requirement should be located and why you believe this location would be better than the proposed location?

We believe this proposed location is appropriate and will help to minimize the risk of a member overlooking the requirement.

Other Comments

In addition to our comment in response to the AICPA’s specific question, we suggest that the AICPA also consider (1) an additional criterion related to the government provision for auditor

independence and (2) an additional requirement related to auditor preparation of an attest client's financial statements.

Government Provision for Auditor Independence

The committee has proposed relocating the government provision related to auditor independence. As noted in the exposure draft, the government provision that currently appears in the "Client" definition clarifies that although government auditors are employed by the government entity for which they provide services, they would be considered independent of that government entity when the head of the government audit organization meets specified criteria. We support the specified criteria included in the provisions and the relocation of the provision. However, we suggest that the AICPA add a fourth criterion to the list of those that may be applicable to the head of a government audit organization. Specifically, we suggest adding a criterion for when the head of a government audit organization is appointed by, accountable to, reports to, and can only be removed by a constitutionally or statutorily created governing body, the majority of whose members are independently elected or appointed and are outside the entity being audited. If this fourth criterion were met, then structural threats to the independence of auditors working within a government audit organization would also be at an acceptable level and independence would not be impaired.

Auditor Preparation of Financial Statements

The committee has proposed clarifying revisions to the Code of Professional Conduct (the Code) as a result of the proposed changes to the definitions of "Client" and "Attest Client." Specifically, the committee proposed clarifying revisions to section 1.295.120, *Bookkeeping, Payroll, and Other Disbursements*. This section of the Code states that if a member applies the "General Requirement for Performing Nonattest Services" interpretation of the "Independence Rule," threats would be at an acceptable level and independence would not be impaired by the auditor performing certain services for an attest client, including preparation of financial statements based on information in the attest client's trial balance. We suggest that the AICPA consider expanding the Code to require that auditors (1) conclude that any services related to preparing accounting records and financial statements, other than those defined as impairments to independence, create significant threats to auditors' independence and (2) document their assessment of the significance of the threat to independence posed by the auditors' preparation of attest client financial statements, including documentation of any safeguards that were applied. We believe that given the nature of services related to financial statement preparation, auditors should be required to document their assessment of the threat to independence posed by such services, as well as any safeguards the auditors applied.

Thank you for the opportunity to comment. If you have questions about this letter or wish to discuss any of our responses, please feel free to contact me at (202) 512-3133 or dalkinj@gao.gov.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is stylized with a large initial "J" and a long horizontal stroke at the end.

James R. Dalkin
Director
Financial Management and Assurance