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Subject: AICPA Professional Ethics Executive Committee (PEEC) February 2011 Exposure Draft entitled "*Omnibus Proposal ~ AICPA Professional Ethics Division ~ Interpretations and Rulings*."

This letter provides the U.S. Government Accountability Office's (GAO) comments on the PEEC's Omnibus Proposal. We appreciate the PEEC's efforts to obtain a wide range of views on these pronouncements exposed for possible adoption. Overall, we support the Omnibus Proposal.

We have specific comments related to the PEEC's proposed interpretations and rulings on (1) the clarification of Public Interest Entities, and (2) the revisions to Interpretation No. 101-3 and non-attest services. These specific comments are detailed below.

Clarification of Public Interest Entities (PIEs)
We support the proposed revision to the *Conceptual Framework for AICPA Independence Standards* as described on page 39 of the PEEC's Omnibus Proposal and support the PEEC's efforts to further clarify the entities that should be considered public interest entities (PIEs) for determining the nature and extent of safeguards to be applied and to make the definition of PIEs more consistent with the International Ethics Standards Board for Accountants (IESBA) definition. The PEEC's revision to the definition, removing employee benefit and health and welfare plans, governmental retirement plans, entities or other programs subject to Single Audit Act requirements, will clarify the entities that will be considered PIEs and will help auditors better understand their responsibilities regarding PIEs.

Revisions to Interpretation No. 101-3 and Non-Attest Services
We support the PEEC's proposed revisions to Interpretation No. 101-3, "Performance of Non-Attest Services" Under Rule 101, *Independence* as described on pages 41 - 47 of the of the PEEC's Omnibus Proposal. The proposed revisions, on pages 44 - 46 on activities that would be considered management responsibilities and their impact on auditor independence, is clearer and is consistent with the language used in other professional standards.

However, we have the following specific concerns about the PEEC's proposed revisions to this interpretation.

- The interpretation has no requirement to document the auditor's evaluation of management's skills, knowledge and experience to oversee the non-attest services. Adding such a documentation requirement will help improve practice and strengthen the standard by providing appropriate evidence that the auditor has performed the evaluation. These extra documentation requirements will also lead to a greater consistency of practice, aid peer reviewers in the performance of their reviews, and help ensure closer consistency with *Government Auditing Standards, 2011 revision.* Accordingly, we recommend that the PEEC add a requirement for the auditor to document the evaluation of the client's skill, knowledge, and experience to understand and oversee the non-attest services.

- The revised paragraph of the proposed Interpretation No. 101-3, Performance of Non-attest Services under Rule 101, on page 42 of the ED is unclear. We recommend rewriting the revised paragraph to clarify the guidance in this interpretation and make it more understandable. In addition, we recommend further clarifying the proposed interpretation by adding a new paragraph explaining that some non-attest services can impact auditor independence in subsequent periods. Accordingly, we suggest revising this paragraph as shown below:

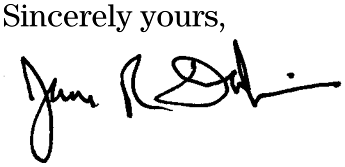
  > Before a member or his or her firm ("member") performs non-attest services (for example, tax or consulting services) for an attest client, the member should determine that the requirements described in this interpretation have been met. In cases where the requirements of this interpretation have not been met during the period of the professional attest engagement as defined by ET § 92.26 or the period covered by the financial statements, the member's independence would be impaired, except as noted in the following paragraph.
  >
  > A ~~member's independence would not be impaired when a member performed~~ non-attest service ~~services prior to the period of the professional engagement that would have impaired independence because the non-attest services were~~ performed by a member during the period covered by the financial statements would not impair the member's independence with respect to those financial statements, provided that:
  >
  > a. the non-attest services do not constitute a management responsibility,
  >
  > b. the non-attest services did not relate ~~solely~~ to the period covered by the financial statements ~~of the prior period, and~~
  >
  > c. the non-attest service were provided prior to the period of the professional attest engagement, and
  >
  > ~~c.~~ d. ~~those~~ the financial statements for the period to which the non-attest services relate were audited by another firm (or in the case of a review engagement, reviewed or audited by another firm).
  >
  > In evaluating the applicability of subparagraph b. above, the impact of non-attest services on auditor independence in fact and in appearance in subsequent periods is an important consideration.

For example, if auditors design and implement an accounting and financial reporting system that is expected to be in place for many years, a threat to independence for future financial audits and attestation engagements performed by those auditors may exist in subsequent periods.

- We believe that the section on Management Responsibilities in the proposed revision to Interpretation No. 101-3, "Performance of Non-Attest Services" under Rule 101, Independence, on pages 44 - 45 of the ED uses terms such as "normal recurring activities," "routine, recurring operating activities," and "activities that are routine and administrative" that have subtle differences in meaning that may be misinterpreted. This section would be made more understandable by defining or explaining the differences between these terms. An alternate approach would be to delete the word "routine" from the phrase "activities that are routine and administrative" to lessen the confusion of distinguishing between routine activities and administrative activities that may actually be management responsibilities, and thus prohibited.
- Lastly, Rule 101-3 does not mention the concept of assessing the cumulative effect of non-attest services on independence with respect to audit and attestation clients. The Conceptual Framework for AICPA Independence Standards states that the auditor should identify and evaluate threats, both individually and in the aggregate, because threats can have a cumulative effect on a member's independence. Including a discussion of the need for auditors to assess the effect on independence of their non-attest services both individually and in the aggregate will help auditors identify situations where their independence may be impaired in fact or in appearance. For example, if an auditor prepares a client's financial statements in addition to performing reconciliations of a client's accounts that are material, and performs other non-attest services, there is a possibility that the auditor's performance of the non-attest services in the aggregate may pose a potential management participation threat, in fact or in appearance, and may impair the auditor's independence with respect to audit and attestation engagements. Accordingly, we recommend that the PEEC include this concept of the need for auditors to assess the extent of the non-attest services they provide "in the aggregate" in their revisions to Interpretation 101-3.

Overall, we support the PEEC's efforts and hope they will consider our views and comments as they revise these interpretations and rulings. We thank you for considering our comments on these important issues.

Sincerely yours,



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