



United States Government Accountability Office  
Washington, DC 20548

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June 3, 2011

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

Subject: AICPA Professional Ethics Executive Committee (PEEC) April 2011  
Exposure Draft of a proposed pronouncement entitled "*Omnibus Proposal ~ AICPA Professional Ethics Division ~ Interpretations and Definition.*"

This letter provides the U.S. Government Accountability Office's (GAO) comments on the PEEC's Omnibus Proposal. The exposure draft (ED) contains proposals that will apply to members in business and industry, in addition to members in public practice, and requests specific comment on the two questions listed on page 14 of the ED. Our responses to these questions, along with other comments, are provided below.

We support the PEEC's initiatives to achieve international convergence of ethics standards, but have concerns regarding certain terms used in the Omnibus Proposal. For these reasons, our comments will be primarily oriented to the proposed new definition of the term "members in business and industry" and the population to which this term applies under ET Section 92, *Definitions*. We also have comments on the use of the conceptual framework terms "threats" and "safeguards" in the proposed new Interpretation No. 501-10, *Financial Interests*, under Rule 501, *Acts Discreditable*.

### **GAO's Comments to Specific Questions**

#### **Proposed New Definition, "Member in Business and Industry," Under ET Section 92, *Definitions***

**(1) Does the proposed definition appropriately capture all members in business and industry? Should there be additional wording added to include any other examples of members in business and industry?**

We believe the proposed definition of members in business and industry does not clearly distinguish between the members who would and those who would not be included in the definition and, accordingly, could lead to an inconsistent understanding of the term and application of the requirements. The proposed

definition defines members in business and industry by listing the various positions and types of organizations to which the term applies. We believe that the definition would be clearer if it instead included all members except those expressly excluded by the definition. By revising the definition to include all members performing professional services who are not (a) engaged in the practice of public accounting or (b) performing professional services with respect to government entities under the conditions described in ET 92.03b, which includes Federal, state, and local governments or component units, the definition will be more easily understood. A listing of the various positions and types of organizations to which the term applies could then follow the revised definition. To clarify the definition, we recommend the following language:

**Member in business:** A member in business is any member who performs professional services and is neither (a) engaged in the practice of public accounting nor (b) performing professional services with respect to government entities under the conditions described in ET 92.03b.

Members in business include those who are employed or engaged on a contractual or volunteer basis in an executive, staff, or administrative capacity in such areas as industry, the public sector, education, the not-for-profit sector, regulatory bodies, and professional bodies.

**(2) Should the AICPA Code use the term *member in business and industry*? Or, would a term such as “member in business” be sufficient?**

We believe that the term “member in business” would be preferable, as this term more closely aligns with the term “professional accountants in business” used in the *IESBA Code of Ethics for Professional Accountants* (IESBA Code). Using the term that is more closely aligned with the terminology used by the IESBA may result in a greater consistency of practice between the standards. Additionally, we believe that the phrase “business and industry” does not capture the nature of many of the types of organizations listed in the draft definition, such as public sector, education, not-for-profit sector, regulatory and professional bodies, due to its commercial and mercantile connotations.

## **Other Comments**

### **Proposed Interpretation No. 501-10, *Financial Interests***

We believe that the use of the terms “threats” and “safeguards” in the proposed Interpretation No. 501-10, *Financial Interests* needs clarification because as currently drafted, it may lead users to mistakenly believe that the ET Section 100.01, “Conceptual Framework for AICPA Independence Standards” applies to ET 501. ET Section 100.01 provides a conceptual framework for evaluating a member’s independence with respect to attestation engagements and only applies to those situations. Rule 501 does not have a framework for identifying and evaluating threats and safeguards related to acts discreditable to the profession.

Accordingly, we recommend revising the Interpretation to provide a more well-developed discussion of threats and safeguards. Such guidance should provide an appropriate context for using the terms “threats” and “safeguards” and help members understand the threats to integrity and objectivity that a member may face due to a financial interest or other relationship with their employer.

Overall, we support the PEEC’s efforts to achieve international convergence of ethics standards and to make clear to whom the rules and interpretations apply. We appreciate the opportunity to review and comment on these proposals for possible adoption, and thank you for considering our comments on these important issues.

Sincerely yours,



James R. Dalkin  
Director  
Financial Management and Assurance