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Comptroller General
of the United States

United States Government Accountability Office
Washington, DC 20548

August 9, 2007

Ms. Lisa A. Snyder, Director
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Subject: Proposed Interpretation 102-7, *Other Considerations: Meeting the Objectives of the Fundamental Principles*, and Proposed *Framework for Meeting the Objectives of the Fundamental Principles*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Professional Ethics Executive Committee's May 15, 2007, Exposure Draft.

We support the Committee's desire to develop a framework that would assist all members, including members who are not in public practice, with meeting the objectives of the principles in ET sections 51-57 of the AICPA Code of Professional Conduct (the Code.) However, we have concerns about basic concepts of the framework that, if not appropriately addressed, could prevent the framework from achieving the stated objectives. Our concerns are detailed below.

Categories of Members

The proposed framework indicates that the nature of threats and safeguards may differ for members in public practice and members not in public practice. Paragraph 80.27 of the proposed framework indicates that "members not in public practice" includes members in business, industry, government, and education. The practice of public accounting is defined in ET Section 92.25 as "the performance for a client, by a member or a member's firm, while holding out as CPA(s), of the professional services of accounting, tax, personal financial planning, litigation support services, and those professional services for which standards are promulgated by bodies designated by Council, such as Statements of Financial Accounting Standards, Statements on Auditing Standards, Statements on Standards for Accounting and Review Services, Statements on Standards for Consulting Services, Statements of Governmental Accounting Standards, and Statements on Standards for Attestation Engagements."

We believe that these two categories are confusing and do not accurately group the ethical threats and safeguards of members. Instead of focusing on the nature of the organization where the member works, the framework should focus on the nature of the services the member performs. In some situations, there is no substantial

difference in the services provided by members in public practice and by members in government.

It is unclear to us how the framework would apply to members in government since in the U.S., CPAs in government perform a variety of services, including independent and internal auditing as well as financial management and reporting and other management functions. The framework does not address how the threats and safeguards would apply to this wide variety of services. We believe that the threats and related safeguards relevant to CPAs in government who perform independent audits would be quite different from those for government CPAs who perform management functions; however, the framework does not acknowledge this distinction.

To address the above issues, we recommend redrafting the framework using the following two categories of members:

- members who provide attest services, including members in public practice and in government
- members who do not provide attest services, including members in public practice who perform tax services, personal financial planning, litigation support, and other services; members in government who perform services other than attest functions; members in education, members employed by management, and internal auditors

These categories more accurately reflect the types of services provided by members and the related threats and safeguards.

Recognition of Government Mandates

Under the framework, if a threat cannot be sufficiently mitigated through the application of safeguards, or if a member is unable to implement appropriate safeguards, the member should decline or discontinue the specific professional service. In some situations, a government CPA may not be able to decline to perform work due to legislative requirement or other reasons; however, the framework does not acknowledge that government auditors may have such mandates.

We believe the Committee should adopt similar language as issued in *Government Auditing Standards, July 2007 Revision*, paragraph 3.04, which notes

“If one or more of these impairments affects or can be perceived to affect independence, the audit organization (or auditor) should decline to perform the work—except in those situations in which an audit organization in a government entity, because of a legislative requirement or for other reasons, cannot decline to perform the work, in which case the government audit organization must disclose the impairment (s) and modify the GAGAS compliance statement.”

Relating the Threats and Safeguards to the Fundamental Ethical Principles

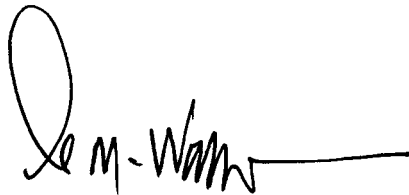
The Exposure Draft background information states that the proposed framework is intended to assist all members in meeting the objectives of the fundamental principles of responsibility, public interest, integrity, objectivity and independence, due care, and scope and nature of services. However, the threats and safeguards discussed in the proposed framework appear to primarily relate to objectivity and independence, from which they were derived, and only indirectly relate to the other five principles.

We believe that the framework should clarify how the seven categories of threats described in paragraphs 80.05-80.07 may apply to each of the ethical principles in order to assist members in meeting the objectives of these principles.

We recognize that the consistency with the International Federation of Accountants (IFAC) Code of Ethics is an important factor in developing the proposed framework. We believe, however, that before it is adopted, the document needs major changes to address the issues discussed above.

We thank you for considering our comments on this important issue.

Sincerely yours,

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

cc:

The Honorable Christopher Cox, Chairman
Securities and Exchange Commission

The Honorable Mark W. Olson, Chairman
Public Company Accounting Oversight Board

Mr. John Kellas, Chairman
International Auditing and Assurance Standards Board