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GAO’s Response to the American Institute of Certified Public Accountants Professional Ethics Division November 15, 2019 Consultation Paper, *Strategy and Work Plan*

This letter provides GAO’s response to the American Institute of Certified Public Accountants (AICPA) Professional Ethics Division’s consultation paper, *Strategy and Work Plan*. GAO promulgates generally accepted government auditing standards (commonly referred to as GAGAS), which provide professional standards for auditors of government entities in the United States. These standards include ethical principles for auditors in the government environment.

As the supreme audit institution for the United States as well as an auditing standard-setting organization, GAO is committed to supporting the public interest and the interest of the public sector auditing community.

Response to Request for Comments

We identified certain proposed new standard-setting projects and new member enrichment projects as matters of particular interest to GAO and provide the following responses to AICPA’s Professional Ethics Executive Committee’s (PEEC) request for input:

1. Business relationships

a) What business relationships do firms have with either nonattest or attest clients?

We are aware that many audit organizations provide professional services, such as bookkeeping; financial statement preparation; internal audit assistance; internal control evaluation; information technology services; appraisal, valuation, and actuarial services; and various management consulting services to their nonattest and attest clients.

b) What additional guidance related to business relationships, if any, would be helpful to address in the code?

The existing code in section 1.265 focuses on business relationships between audit organizations and clients that pertain to cooperative arrangements and joint closely held investments. We believe that expanding the code to identify common nonattest services that audit organizations provide would enhance and clarify the concept of “business relationships” to reflect current practice in the audit industry, which now includes an extensive array of vendor-type or outsourced management services that audit organizations provide to their clients.

In addition, we believe that more guidance would be helpful to address business relationships in which auditors are engaged to both provide a nonattest service, such as preparing an entity’s

sustainability policy, and subsequently conduct a non-assertion-based attestation engagement on the same subject matter. We encourage PEEC to assess whether its existing guidance is sufficient in this area.

c) Is this matter increasingly affecting professional practice and how valuable would you find additional guidance?

We believe that audit organizations are increasingly engaged to perform a wide variety of nonattest services for clients, and these nonattest engagements may pose independence considerations for subsequent attest engagements. Additional guidance in the code would assist auditors in identifying potential threats to independence with respect to attest engagements that originate with the provision of nonattest services to the same client.

2. Simultaneous employment or association with an attest client

a) What challenges are members encountering when complying with the “Simultaneous Employment or Association With an Attest Client” interpretation (1.275.005)?

Some government auditors may encounter independence impairments to their attest engagements when, for example, there are statutory requirements to serve in an official role, such as providing a voting member to an entity’s management committee or board of directors. In addition, we agree with the example PEEC cites in this section of the *Strategy and Work Plan* that pertains to the potential independence threats affecting auditors who are simultaneously engaged to audit U.S. military service branches and also serve as active duty or reserve force military personnel.

b) What relief or exceptions should PEEC explore and why?

We suggest PEEC consider including exceptions in this section that pertain to (1) government auditors who are subject to statutory requirements related to serving as ex officio board members or directors of an audited entity and (2) auditors who are simultaneously engaged to audit U.S. military service branches and also serve as active duty or reserve force military personnel.

3. Conflicts of interest

a) What additional guidance, if any, would be helpful to assist members with better understanding and applying the conflicts of interest interpretations?

We believe that extant code section 1.110 provides a reasonably comprehensive discussion of conflict of interest matters. However, because PEEC states in the *Strategy and Work Plan* that this proposed new member enrichment project stems from “an increased number of inquiries regarding conflicts of interest,” we suggest that PEEC consider performing a content analysis of the inquiries received to determine whether specific subsections need enhancement. For example, if PEEC’s analysis identifies an increase in inquiries related to potential safeguards that address conflicts of interest, then adding material to section 1.110.010 paragraph .10 could be of most value to members in understanding and applying the code.

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Thank you for the opportunity to comment on these important issues. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or dalkinj@gao.gov.

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