



December 17, 2012

Professional Ethics Executive Committee
c/o Lisa A. Snyder, Director
Professional Ethics Division
1211 Avenue of the Americas, 19th Floor
New York, NY 10036

Via e-mail: (lsnyder@aicpa.org)

Audit • Tax • Advisory

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687

T 312.856.0200
F 312.565.4719
www.GrantThornton.com

Re: Comments on Exposure Draft, *Omnibus Proposal of Professional Ethics Division: Proposed Revised and New Interpretations and Proposed Deletion of Ethics Rulings*

Dear Ms. Snyder and Committee Members:

Grant Thornton LLP (“Grant Thornton” or the “Firm”) appreciates the opportunity to comment on the American Institute of Certified Public Accountants (“AICPA”) Professional Ethics Executive Committee’s (“PEEC”) Exposure Draft (“ED”), *Omnibus Proposal of Professional Ethics Division: Proposed Revised and New Interpretations and Proposed Deletion of Ethics Rulings*, issued on June 29, 2012. We strongly support the AICPA’s commitment to strengthen the ethics and independence of all of its members in the accounting profession, in public practice, and in business. The following outlines our firm’s comments on the ED.

Revisions to Interpretation No. 101-3 under Rule 101

The following provides our comments related to the proposed revisions to Interpretation No. 101-3, *Nonattest Services*, (“ET 101-3”) under Rule 101, *Independence*.

Cumulative effect on independence when providing nonattest services

Grant Thornton supports PEEC’s current proposal to add a provision to ET 101-3 that considers that multiple permitted nonattest services may in the aggregate create an independence threat that should be evaluated under a threats and safeguards approach (or known as an independence conceptual framework approach). The alignment to the independence conceptual framework approach would appropriately require the member to evaluate how a reasonable third party would evaluate whether the member, through undertaking multiple nonattest services, had undertaken management responsibilities and whether the member performed attest procedures on its work or on the work of others in the member’s firm.

We believe that the proposed revision is consistent with the risk-based approach on identifying and evaluating threats, both individually and in the aggregate, under the Conceptual Framework for AICPA Independence Standards. Furthermore, we believe that the proposed revision converges with the recent independence revisions established by the Government Accountability Office (“GAO”) in its 2011 *Government Auditing Standards* (the “Yellow Book”).

However, because this is a new concept in applying ET 101-3, Grant Thornton believes that many members will have difficulty in understanding and applying the independence conceptual framework approach when they perform more than one nonattest service. For example, many members will now have to consider the cumulative threats to independence if the member assists the attest client management with drafting the financial statements and preparing the income tax provision. Members that are well versed in applying an independence conceptual framework approach may quickly recognize that safeguards will need to be applied to eliminate or reduce the management participation and/or the self-review threats to an acceptable level; however, many other members will need additional guidance and materials to establish those safeguards that would eliminate or mitigate the independence threats.

In this regard, we believe that additional guidance or examples will be necessary to assist members in applying this provision. For example, since members will need assistance in navigating and documenting the implementation of the ET 101-3 provision, PEEC should consider providing illustrative documentation similar to the AICPA practice aid materials for the 2011 Yellow Book independence revisions. While seemingly a simple provision, PEEC should consider the many questions and difficulties that were raised by practitioners in AICPA and other seminars on applying the 2011 Yellow Book conceptual framework to understand the difficulty members will have in applying the new provision.

Grant Thornton would, therefore, recommend deferral of the ET 101-3 provision until PEEC can develop the necessary guidance, with practical and real-life examples, and provide such materials in AICPA conferences and workshops to help members successfully apply the new provision.

Activities related to attest services

Grant Thornton supports PEEC’s proposal that activities such as financial statement preparation, cash-to-accrual conversions, and reconciliations are nonattest services subject to the requirements under ET 101-3. We believe that requiring members to consider such services as nonattest services will more clearly enhance an accountant’s independence, as the accountant will need to document management’s responsibilities and, if performing multiple nonattest services when also performing an attest service, consider the cumulative effect of these services on the accountant’s independence. This change is also consistent with the provisions and guidance set forth by the GAO in its 2011 Yellow Book.

However, we recommend that PEEC consider the following under the “Activities Related to Attest Services” section of ET 101-3:

- Add a sentence in the first paragraph that states that a member cannot make any management decisions even though certain activities may be within the scope of the attest engagement.
- Revise the first sentence in the second paragraph (*“However, the member should exercise judgment in..... “General Requirements for Performing Nonattest Services” section.”*) to align with the second sentence, which identifies specific activities that constitute nonattest services, since such activities are outside of the scope of the attest engagement. The purpose or intent of the first sentence is unclear because it does not appear to relate to the purpose of the second sentence.
- Add a sentence that would remind members that, when providing activities that fall outside the scope of the attest engagement, compliance with the independence requirements set forth under ET 101-3 is required, since the activities would be nonattest services.

Furthermore, we believe that the effective date for the revisions to the “Activities Related to Attest Services” section of ET 101-3 should be aligned with the effective date of the proposed Statements on Standards for Accounting and Review Services (SSARS) related to association with unaudited financial statements and compilations dated June 29, 2012, which are anticipated to be effective for the period ending or after December 15, 2014. We believe that, because the proposed SSARS will be a significant change in practice, a single effective date for both sets of standards would provide a consistent application and would allow members ample time to incorporate the change in position. Also, aligning the effective dates would reduce any confusion that might exist relative to these proposals. However, PEEC should also consider permitting early implementation if SSARS also permits early adoption, thereby permitting members to apply one set of policies and procedures to comply with the new requirements during the transition period.

Internal audit assistance services

Grant Thornton also supports PEEC’s decision to require members to evaluate the significance of management participation threats created by performing separate evaluations of the effectiveness of the client’s internal control over financial reporting. We agree with PEEC that all internal audit assistance services should be subject to independence considerations to determine whether the performance of such services may result in performing ongoing monitoring based on certain factors, such as the frequency of the services and the significance of the controls being tested, including the scope and extent of such internal controls and control testing relative to financial reporting. We also agree with PEEC that the new requirements be included in the “Internal Audit Assistance Services” section under ET 101-3.

However, we believe that many internal audit practitioners will be confused about what the new requirements mean or whether the new requirements are, in essence, prohibiting internal audit services for any attest client. Therefore, we believe that many practitioners will need further guidance and clarification on evaluating independence when internal audit assistance services are involved for the following reasons:

- A significant degree of judgment is needed to evaluate the independence threats and make a determination of whether the frequency and nature of the internal audit services constitute ongoing monitoring, separate evaluations, or undertaking management responsibilities.
- Frequently, internal audit assistance includes a broad range of activities and services that may be difficult to assess on a cumulative basis. Internal auditors may be involved in various aspects of providing assistance to clients (such as, assistance relating to internal control over financial reporting, benchmarking assistance, operational reviews not related to financial reporting, and so forth).
- The complexity of the concepts included in the revised “Internal Audit Assistance Services” section will not be readily understood in practice and can lead different practitioners to make different conclusions when presented with similar or identical fact patterns.

Therefore, we believe PEEC should provide members specific examples or a frequently asked questions document, perhaps working with internal audit professional organizations. This will allow members to better understand PEEC’s intent, comply with the internal audit assistance provisions under ET 101-3, and consistently apply the independence provisions to similar or identical fact patterns.

We solicited comments from the practitioners in our firm within our advisory practice that provide internal audit and internal control over financial reporting assistance to clients. Many were confused as to how to apply the provisions within this proposal. Many believed that the provisions, in essence, represented a ban on providing internal audit services to audit clients, similar to the prohibition in the U.S. Securities & Exchange Commission’s independence rules. Moreover, all were confused about how to make the many judgments inherent in the proposal. Therefore, we believe members would benefit from the following recommendations:

- Clarify what is meant by the term *ongoing evaluations* when describing monitoring activities, as the ED states that management participation threat created by a member performing ongoing evaluations is so significant that no safeguards could reduce the independence threat to an acceptable level. Without further clarification or examples, many members will not fully understand what services do or do not constitute ongoing evaluations. Since this is a bright line where independence is impaired, we believe that it should be clearer what types of services would or would not constitute ongoing monitoring type activities.

- Add guidance and examples to assist members evaluate whether provision of one or more *separate evaluations* would be equivalent to performing *ongoing evaluations* or performing *monitoring activities*. As stated in the ED, separate evaluations are permitted as long as the member does not assume a management responsibility; however, the member would also be responsible for assessing whether such assistance actually equates to an *ongoing evaluation* or a *monitoring activity*. If the separate evaluations are deemed providing an ongoing evaluation or a *monitoring activity*, independence is impaired.
- Provide additional guidance on the distinction between determining the frequency of separate evaluations and ongoing monitoring. The ED outlines that members need to consider the frequency of the internal audit activities in performing such assessment; however, frequency is not defined under the proposed revisions, nor has any type of benchmark or threshold guidance been provided on what would be acceptable or not. For example, if a *separate evaluation* is to be performed to assess whether the client's internal controls (for example, over the accounts payable function) are operating effectively, and the client requests that such assessment be performed two times a year versus once a year, would that constitute performing an *ongoing evaluation* or performing *monitoring activities*?
- Add specific examples where independence would be impaired if client management relies on the member's internal audit work as the primary basis for its assertions on the design or operating effectiveness of internal controls. The examples should incorporate specific permitted internal audit assistance services that client management may need to rely on for its assertions relating to internal control over financial reporting (such as, service organization control audits, SOX 404 requirements, banking regulatory compliance requirements, and so on). We believe that many service centers may use benchmarking analysis and readiness assessments, coupled with their own remediation and other efforts, as the basis for their assertions for an attestation engagement for compliance, internal control over financial reporting, or specific projects, such as conflict minerals. Furthermore, we are uncertain as to why an independence impairment would exist if management were to express reliance on a *separate evaluation* report that is just one of many components of management's assertions. Therefore, PEEC should consider clarifying this point in its examples or in a frequently asked question.
- Provide a cross-reference within the "Internal Audit Assistance Services" section to the "Cumulative Effect on Independence When Providing Nonattest Services" section, since members will need to evaluate the cumulative effect on independence when multiple permitted internal audit services or separate evaluations are performed or are contemplated to be performed for an attest client. PEEC should also consider providing specific examples on evaluating the aggregation of internal audit assistance services provided (or to be provided) on the cumulative effect on independence, including examples of safeguards that a member may consider

applying to mitigate the independence threat (for example, management participation or self-review) to an acceptable level or to eliminate the threat.

- Add internal audit “co-sourcing” services when discussing “internal audit outsourcing” services throughout the “Internal Audit Assistance Services” section, since “co-sourcing” arrangements are also commonly used.

Proposed new interpretations under Rules 501 and 502

Grant Thornton supports PEEC’s two new proposed interpretations (Interpretations 501-11, *Use of the CPA Designation*, and 502-6, *Use of the CPA Designation*). Both of these interpretations require that a member comply with the applicable state accountancy laws and board accountancy laws pertaining to using the CPA or certified public accountant certification designation. Otherwise if a member fails to comply with these state board requirements in a manner deemed to be false, misleading or deceptive, the member would be in violation of Rule 501, *Acts Discreditable* (“Rule 501”), and Rule 502, *Advertising and Other Forms of Solicitation* (“Rule 502”). However, we believe a member should only be deemed to be in violation of Rule 501 or 502 once the state board made its determination that the individual had not complied with the applicable requirements. Therefore, we believe that PEEC should consider adding language in the proposed interpretations that would take into consideration the state board’s determination on whether the individual has or has not complied with the applicable requirements before finding a member in violation of Rule 501 or 502.

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We would be pleased to discuss our letter with you. If you have any questions, please contact Karin A. French, National Managing Partner of Professional Standards at (312) 602-9160.

Sincerely,



Grant Thornton LLP