



September 16, 2014

Professional Ethics Executive Committee
Attention: Lisa A. Snyder, Director
Professional Ethics Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas, 19th Floor
New York, NY 10036

Grant Thornton LLP
175 W Jackson Boulevard, 20th Floor
Chicago, IL 60604-2687
T 312.856.0200
F 312.565.4719
www.GrantThornton.com

Via e-mail: lsnyder@aicpa.org

Re: Comments on Exposure Draft, *Breach of an Independence Interpretation*: Proposed Interpretation of the AICPA Professional Ethics Division dated June 16, 2014

Dear Ms. Snyder and Committee Members:

Grant Thornton LLP (“Grant Thornton”) appreciates the opportunity to comment on the American Institute of Certified Public Accountants (“AICPA”) Professional Ethics Executive Committee’s (“PEEC”) recently issued Exposure Draft (“ED”), which revises Ethics Section 91, *Applicability* (ET 91) and proposes a new interpretation under Rule 101, *Independence*, Interpretation 101-20 “Breach of an Independence Interpretation” (ET 101-20) of the *AICPA Code of Professional Conduct* (“Code”).

We strongly support the PEEC’s commitment to provide robust guidance, including a comprehensive framework, to assist AICPA members more clearly evaluate the impact and consequences of a breach of independence under a conceptual threats and safeguards approach. We agree with PEEC’s conclusion that the public interest is better served when an auditor or a firm performing attest services establishes robust quality control policies and procedures to provide the client and the users of the client’s financial statements with reasonable assurance that any identified breach of independence will be evaluated consistently and appropriately. The proposed interpretation is clearly in the public’s best interest, since auditors and firms will now be expected to fully evaluate a breach of independence as opposed to the current requirement to resign from the attest engagement regardless of what the consequences are under Rule 101, *Independence* (the Independence Rule), which can be viewed as self-serving to avoid the consequences of a breach.

Therefore, the new guidance will assist firms in determining whether to resign or perform additional procedures to reduce the independence threats to an acceptable level when the firm identifies a breach of the Independence Rule. We agree that the litmus test is the determination of whether the attest engagement team’s integrity, objectivity, and professional skepticism has been compromised as a result of the breach. In the event a firm concludes that it can continue to provide attest services that the firm should be in the position to provide its documentation on how it reached that conclusion. Each firm should understand that even though they may have satisfactory addressed the consequences of the breach, it would not necessarily preclude an

investigation or an enforcement action from an applicable regulator as it relates to the underlying breach.

Furthermore, Grant Thornton agrees with PEEC's conclusion in the ED that there are circumstances when gross or intentional breaches of independence are identified such as the partner or professional employee that committed the breach is either the lead attest engagement partner or an individual in a position to influence the attest engagement, there are no actions that can be taken that would satisfactorily address the consequences of such breaches to maintain the integrity, objectivity, and professional skepticism of the attest engagement. We also agree that there are situations where an inadvertent breach can be satisfactorily addressed by reviewing the consequences of the breach, action steps to be taken, and whether a reasonable or informed third party would likely conclude that the attest engagement team's integrity, objectivity, and professional skepticism would be compromised and therefore impairing independence.

Other comments

Grant Thornton agrees with the specific steps and framework that firms should follow when addressing breaches of independence as outlined in the proposed interpretation. However, below we have identified the following specific comments for PEEC's consideration:

- **Required policies and procedures established by the firm** – We believe that guidance should be included within the interpretation that would highlight the minimal quality control standards or policies that a firm should have in place to adequately identify and evaluate circumstances or relationships that create independence threats, including detection of breaches; therefore, providing firms a base line of what those standards or policies assist firms in applying the new interpretation.
- **Communicating with those charged with governance** – Grant Thornton believes that additional language within the interpretation is necessary to address instances where communicating matters to third-parties affected by the breach is necessary, therefore, also emphasizing the disclosure requirements that must be met under Rule 3-01, *Confidential Client Information*, when disclosing matters to third-parties.

Recommendation for development of a practice aid or frequently asked questions (FAQs) document

Grant Thornton believes that PEEC should consider developing non-authoritative guidance in the format of a practice aid or FAQs to provide more clarity in assisting members in better understanding the application of the proposed interpretation, including the framework for identifying, evaluating, documenting, and communicating independence breaches. For example, the following can be covered in the guidance:

- Other examples of quality control related policies and procedures (or best practices) that will assist firms in fulfilling its responsibilities to have established sufficient policies to identify and address breaches to independence or other Code provisions, including notification of

those breaches, such as adding and take into consideration policies that may be required for smaller firms, including separation of responsibilities.

- Specific illustrative examples, scenarios and/or action steps that firms should consider when addressing a potential independence breach, (1) determining whether or not a breach has occurred, (2) evaluating the significance of the breach (e.g., determining whether the breach is inadvertent), (3) examples of specific safeguards (or certain actions), (4) determining whether a firm should resign from the attest engagement, (5) determining when disclosure is necessary, (6) evaluating the impact the breach has on previously issued attest reports, and (7) the timing of communications internally and with those charged with governance, including documentation or communication format (or templates).
- Illustrative examples or scenarios to assist members in identifying, evaluating, and addressing breaches for other provisions of the Code (other than independence), as required under the proposed revision of ET 91.

Effective date

Grant Thornton agrees with PEEC that a delayed effective date is not necessary, if firms have policies and procedures in place that are designed effectively to reasonably prevent and reasonably detect a breach of independence, as this will allow them to avail themselves of the new interpretation.

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We would be pleased to discuss our letter with you. If you have any questions, please contact Trent Gazzaway, National Managing Partner of Professional Standards, at Trent.Gazzaway@us.gt.com or (704) 632-6834.

Very truly yours,

