September 16, 2014

Ms. Lisa A. Snyder
Director, Professional Ethics Division
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036

Breach of an Independence Interpretation, **Proposed Interpretation of the AICPA Professional Ethics Division**

Dear Ms. Snyder:

This letter provides the U.S. Government Accountability Office's comments on the *Breach of an Independence Interpretation* exposure draft prepared by the American Institute of Certified Public Accountants' Professional Ethics Executive Committee (PEEC). We share the PEEC's view that the public interest is not served if a firm is forced to resign from an engagement because of a breach of an independence interpretation if the consequences of the breach are such that they do not affect the attest engagement team's integrity, objectivity, and professional skepticism. As noted below, we are suggesting that the PEEC consider expanding the applicability of the specific steps to be taken in response to identification of a breach of an independence requirement to other breaches of the code. We are also suggesting that the PEEC consider adding guidance on attributes that would be desirable or necessary in a "responsible individual."

Effective Date

We agree with the PEEC that a delayed effective date is not necessary.

ET Section 91.03 on Breaches of Provisions Other Than Independence

The ethics provisions addressed in section 91.03 include those for conflict of interest, due care, and integrity, all of which are critical to the conduct of an engagement in accordance with public expectations of ethical behavior. Under the proposal, the member should determine whether to report the breach by exercising professional judgment and taking into account whether a reasonable and informed third party would be likely to conclude that the member is able to comply with the rules of the code. The interpretation as written relies extensively on the judgment of an individual member to determine compliance with provisions of the code other than independence. This approach contrasts with the proposed requirement for a breach of an independence interpretation (no. 101-20), under which a member should promptly communicate the breach to an appropriate individual within the firm. This individual should then take specific steps outlined in the proposed interpretation depending on the severity of the breach. Also in contrast with the proposed requirements for the breach of an independence interpretation, the proposed section 91.03 does not require policies and procedures designed to provide a firm with reasonable assurance of complying with relevant ethics requirements. In our view, the interpretation would be enhanced by expanding applicable requirements included in the proposed independence interpretation to cover breaches of ethics requirements other than those

related to independence. We suggest that the PEEC consider expanding these requirements accordingly.

<u>Interpretation No. 101.20 – Breach of an Independence Interpretation</u>

The proposed interpretation addresses the responsibilities of a "responsible individual" in the event of a breach of an independence requirement. However, the proposal does not indicate what attributes might be desirable or necessary in a responsible individual. Such attributes might include serving in particular roles within the firm, such as partner or partner equivalent or responsibility for engagement quality. The attributes could also be related to a specific engagement, for example, the absence of a role in the engagement that is the subject to a breach. We suggest that the PEEC consider describing in the interpretation attributes that would be desirable or necessary in a "responsible individual."

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We thank you for considering our comments.

Sincerely yours,

James R. Dalkin
Director, Financial Management and Assurance