



National Association of State Boards of Accountancy

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September 17, 2014

Professional Ethics Executive Committee  
c/o Lisa A. Snyder, Director  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

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

Dear Members and Staff of the AICPA Professional Ethics Executive Committee:

We appreciate the opportunity to offer comments on the Exposure Draft referred to above. The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories. In furtherance of that objective, we offer the following comments on the Exposure Draft.

#### **Support for the Exposure Draft**

NASBA supports the proposed interpretation No. 101-20 – Breach of an Independence Interpretation. In particular, we support the provisions of the interpretation that:

- Require a firm to establish policies and procedures to provide reasonable assurance that the firm, its personnel, and others subject to independence requirements maintain independence when required,
- Address breaches that result in significant threats to independence,
- Provide guidance on identifying and communicating breaches of independence requirements,
- Provide guidance on evaluating the significance of a breach,
- Provide guidance on addressing the consequence of a breach of independence requirements,
- Outline required communications with those charged with governance, and
- Outline documentation requirements.

#### **Implementation in Large Accounting Firms vs. Small Firms**

In general, NASBA believes that the guidance provided by the exposure draft will be clearly understood by larger firms that have a developed accounting and auditing practice, and are subject to peer review in their respective states. However, we do have concerns about the ability of smaller firms with only one or two partners, and a practice that may involve performing more reviews or compilations than audits, to implement this standard. We believe that the standard would be improved by providing more

examples of how the interpretation should be implemented in small firms, or when a small firm must conclude that it is not independent.

One of the suggestions included in the exposure draft as to how a small firm with only one or two partners could address the consequences of a breach would be to recommend that the client engage another firm to review or re-perform the affected attest work, or to engage another firm to evaluate the results of non-attest services. The dilemma is that, in smaller markets, firms are unwilling to engage another firm from their area to perform these services. In our opinion, many of the actions that the responsible individual and firm should take work well for a somewhat larger practice, but will present significant challenges to smaller firms. We believe that the interpretation would be improved by providing more examples of the actions and safeguards that work in firms with one or two audit partners that often service smaller markets.

#### **Effective Date**

We believe that a delayed implementation date of 6 to 12 months would better serve small firms. We believe that smaller firms will need time after busy season ends on April 15 to absorb the requirements of this standard. This time may also allow for the development of training materials directed to this segment of CPA firms.

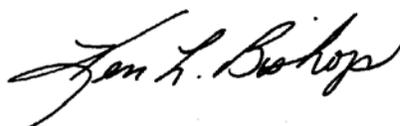
However, we also recognize that larger firms may be able to quickly adjust their practices to meet the requirements of this standard. As a result we would support early adoption of a standard that has a delayed required implementation date.

Again, we appreciate the opportunity to comment on the Exposure Draft.

Sincerely,



Carlos E. Johnson, CPA  
NASBA Chair



Ken L. Bishop  
NASBA President and CEO