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Via email Lisa.Snyder@aicpa.org

June 20, 2017

Lisa A Snyder
Senior Director, AICPA Professional Ethics Division
AICPA Professional Ethics Executive Committee
1211 Avenue of the Americas
New York, New York 10036-8775

Re: Proposed Interpretations ET 1.170.010 and 2.170.010

Dear Ms. Snyder:

ChapinSandstrom, LLC appreciates this opportunity to comment on what is likely to be a controversial set of ethics interpretations, particularly for members in public practice. Unless specifically noted otherwise, our comments are limited to the interpretation affecting members in public practice.

If we as a profession accept the notion that all of us, not just auditors, have a responsibility to act in the public interest, then this proposal makes sense. And while we have concerns as discussed below, the overall thrust of these interpretations is to demonstrate our commitment to further the public interest in all we do.

While the differential framework adopted by the IESBA requires a more robust response and documentation regime for auditors versus non-auditors, PEEC clearly believes it furthers the public interest to not carry forward that separate treatment to the United States – we generally agree.

While there may be an argument to make that non-auditors are less likely to have access to the same level of management or client documentation, making it more difficult to comply with the new interpretation for members in public practice performing non-audit services, they are also less likely to encounter instances of noncompliance in the first place so there is a natural tradeoff. If a non-auditor (e.g., a member in public practice acting in a consulting capacity) does happen to encounter an instance of noncompliance that could be harmful to a creditor or worse the general public, how can we honestly say we don't have a responsibility to pursue the matter with the same rigor as auditors? And to suggest that this will make our consulting engagements less profitable or cause firms to lose business puts serving the self-interest of the client (and firm) over the public interest. Further, given the apparent re-emergence of consulting at the large firms, in particular, (our founder began his career with one of the Big Eight firms) this interpretation may serve as a safety valve of sorts to ensure we never forget we serve the public interest. So – it gets back to whether or not we believe in the notion that our profession, all of us, have a responsibility to act in the public interest.

It is our belief that in the end we are all gate keepers to one degree or another (granted those performing financial statement audits and examination-level attestations have the highest level of responsibility in this regard). Meaning, we put serving the public interest above all else with the only constraint being our rule (and related interpretations) on confidentiality. The proposal in context of professional practice makes this continued constraint crystal clear. The effect of this constraint for the United States in the context of this proposal is for us to "merely" bring our concerns to the attention of management (or those charged with governance) – not exactly an onerous requirement.

In terms of our concerns, they follow:

Operational Concerns

The explanatory memorandum to the proposal notes that while the proposal does not modify AU-C 250, it does impose requirements on auditors that go beyond the referenced auditing standard. It would be helpful to auditors to have a direct link or reference from the auditing standard to the new ethics interpretation. In fact, given the pervasiveness of this interpretation, there should probably be a reference to the new ethics interpretation for all other professional performance standards to help remind all of us of this new requirement (SSARS, SSAE, SSCS, and SSTS). There should also be a concerted awareness campaign to alert all members of the final interpretation including its documentation requirements.

Also, notwithstanding our belief that all professional engagements should be subject to this proposal, it does seem appropriate to recognize that the ability to marshal management's cooperation is not uniform across all types of engagements. Accordingly, it does seem appropriate to provide for such scenarios by an acknowledgment that a member's ability to obtain and develop an understanding of the noncompliance is a best efforts concept and that the important thing is to bring concerns to the attention of senior management (it would also be helpful to provide some examples of the level of effort envisioned when developing an understanding of the identified noncompliance).

Public Interest Concern

Under paragraph .33, a member would be prohibited from notifying the client's independent auditor of the identified noncompliance. This is due to concerns over confidentiality. We would note that the client's independent auditor is subject to the same confidentiality rule; we are also reminded of Mr. Gaylen Hansen's (past chairman of the NASBA) comment at a PCAOB public meeting regarding the auditor's reporting model that said "[c]lient confidentiality . . . doesn't serve investors well when it is parlayed to obfuscate the important obligation to call things as they are seen". We think there is an argument to be made that direct communication to a client's independent auditor is not that same thing as a communication to other third parties and it would further the public interest.

The PEEC proposal does note that the client's senior accounting professional has a duty to provide all relevant information to his employer's independent auditor under ET 2.130.030 (but this only applies if this person is a member - this limitation is probably the "weak link" in the anticipated chain of communication). If the prohibition to directly communicate with the client's independent auditor remains in the final interpretation, we recommend that consideration be given to requiring the member in public practice make an attempt to ensure that the level of management to whom the noncompliance is communicated is believed to be of sufficient seniority to help ensure, in turn, such identified

noncompliance gets communicated to the client's independent auditor (e.g., communication to a mid-level divisional manager may not make it up the chain of command).

And if the noncompliance involves fraud, this should be directly communicated to those charged with governance (or one of its committees). To this end, it may be prudent to include a requirement for the member to consider requesting that management (or those charged with governance) communicate the noncompliance to the independent auditor and to document the rationale for deciding not to make such a request of management.

In terms of our responses to the questions asked in the proposal, they follow:

1. *Should members in public practice who provide only nonattest services to a client be required to document certain aspects of the [noncompliance]? Or rather, should they be encouraged to document certain aspects of the [noncompliance]?*

   Yes. The reality is that if the requirement is that the member is "encouraged" to document it is unlikely the noncompliance or the communication made to management will be documented. This is particularly true for non-auditors. If someone has to put something to writing, it drives more careful thought and is likely to result in a more deliberate course of action. For those who perform audits, this will not be particularly challenging. However, for those of us who do not perform audits on a regular basis (or other attest services), this will likely be more of a challenge and something for which PEEC is likely to receive considerable push back. We believe there is ample evidence to suggest documentation drives excellence.

2. *Is a one year transition period for the effective date appropriate? If not, what is an appropriate time period and why?*

   No. Deciding on an effective date is arbitrary by definition. If the interpretation retains the same framework for both auditors and non-auditors, allowing more time seems reasonable. This is going to be a big change for non-auditors - particularly smaller firms that focus on tax return preparation and write-up services. This extra time will allow firms to carryout current engagements, provide training to their professionals (particularly non-CPA's who perform consulting services) and revise internal policies and procedures; it will also allow time to rethink the terms of engagement letters and to carry out an awareness campaign by the AICPA.

   Accordingly, we would support allowing for a two-year transition (this extra time will also help those of us working with clients to implement the new revenue recognition and leasing standards).

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We would be pleased to discuss any of these comments with you or others. Questions can be directed to Dan Sandstrom.

Very truly yours,

Chapin Sandstrom, LLC