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Comptroller General
of the United States

United States Government Accountability Office
Washington, DC 20548

June 24, 2005

Ms. Lisa A. Snyder
Director, Professional Ethics Division
AICPA
Harborside Financial Center
201 Plaza Three
Jersey City, NJ 07311-3881

Subject: *Proposed New Interpretation 101-15 under Rule 101: Financial Relationships*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the American Institute of Certified Public Accountants (AICPA) Professional Ethics Division Interpretations and Rulings issued April 18, 2005, proposed new interpretation 101-15 – *Financial Relationships*, under Rule 101, *Independence*.

While GAO is not commenting on the proposed interpretation as a whole, we are pointing out an area of concern regarding the conflict between the proposed interpretation and *Government Auditing Standards*. This is an issue for state and local government audit organizations who conduct financial audits of their respective pension plans or audits that include those plans (e.g., the comprehensive annual financial report of their unit of government), and who may be citing compliance with AICPA standards as well as *Government Auditing Standards*.

The AICPA proposed interpretation states that a covered member who participates in a retirement, savings, compensation, or similar plan is considered to have a direct financial interest in the plan. Under Rule 101-1, independence is considered impaired if during the period of a professional engagement or at the time of expressing an opinion, a member had any direct or material indirect financial interest in the enterprise.

Because government audit organizations frequently have responsibility for auditing their respective government units (including the pension plan for that government), *Government Auditing Standards* includes the following provisions for consideration of independence in those cases. "Auditors are not precluded from auditing pension plans that they participate in if (1) the auditor has no control over the investment strategy, benefits, or other management issues associated with the pension plan and (2) the auditor belongs to such pension plan as part of his/her employment with the audit organization, provided that the plan is normally offered to all employees in equivalent employment positions."¹

¹ *Government Auditing Standards*, para. 3.07 b, footnote 19.

We suggest the AICPA add language similar to the above language contained in *Government Auditing Standards* for this specific situation for government audit organizations.

We thank you for considering our comments on this very important issue.

Sincerely yours,

A handwritten signature in black ink, appearing to read "D. M. Walker", with a long horizontal flourish extending to the right.

David M. Walker
Comptroller General
of the United States