March 16, 2023

Representative Jane Bloomingdale
Chair, House State Government Committee
Iowa State Capitol:
1007 East Grand Avenue
Des Moines, Iowa 50319

Dear Chair Bloomingdale:

On behalf of the American Institute of CPAs (AICPA), we appreciate the opportunity to comment on Senate File 478 which restricts the Iowa State Auditor’s office from accessing certain records needed for auditing purposes. The AICPA does not typically engage on state-specific legislation; however, we felt compelled to express our concerns with the bill. If passed, Senate File 478 could result in increased fraud, the loss of federal funding, and a negative impact on Iowa’s bond rating.

The AICPA is the world’s largest member association representing the CPA profession, with more than 431,000 members in the United States and worldwide, and a history of serving the public interest since 1887. AICPA members represent many areas of practice, including business and industry, public practice, government, education and consulting. The AICPA sets ethical standards for its members and U.S. auditing standards for audits of private companies, nonprofit organizations, and federal, state and local governments. It develops and grades the Uniform CPA Examination, offers specialized credentials, builds the pipeline of future talent and drives professional competency development to advance the vitality, relevance and quality of the profession.

Independence, objectivity, and professional skepticism serve as the foundation of a high-quality audit. These core values are governed by an adherence to high ethical standards; auditors have a professional duty to confidentiality. Iowa Administrative Code chapter 193A section 13.1(2) requires CPAs licensed in Iowa, including those employed by the State Auditor’s office, to comply with the AICPA Code of Professional Conduct (the Code). The Code prohibits a CPA from disclosing confidential client information without the client’s specific consent. Ethical violations, including those related to the disclosure of client information, are investigated by the Iowa Accountancy Examining Board (the Board). Should a violation be found to exist, the Board could discipline a licensee or revoke their license to practice public accountancy in the State.

CPAs must also comply with professional standards in the performance of an audit. Professional standards require that the auditor obtain management’s agreement to provide auditors with access to all records and documentation related to the audit. Management must also agree to
provide unrestricted access to persons from whom the auditor determines it necessary to obtain audit evidence. If this information is not available to an auditor, this is considered a scope limitation and the auditor would be forced to issue a disclaimer of opinion. A disclaimer of opinion is a statement made by the auditor that they were unable to form an opinion regarding the subject of the audit (e.g., financial statements). The issuance of a disclaimer of opinion raises concerns about the reliability of the financial statements, as the auditor was unable to access information that might have indicated material misstatement, noncompliance with laws or regulations or fraud. In addition to the negative impact on the company, a disclaimer of opinion can also result in legal or regulatory consequences. For example, the State’s receipt of federal funding requires a compliance audit that provides assurance to the federal government that the State has complied with the various rules associated with each federal program. Disclaimers of opinion on the State’s compliance with federal program rules could have serious implications for the State’s ability to receive future federal funding and raises the potential for follow-up by the federal government on federal funds already expended.

We encourage the House State Government Committee to defeat Senate File 478 as it seeks to solve for a problem that does not exist and could result in negative consequences for Iowa taxpayers. Given the amount of federal funding received because of the COVID pandemic, Iowa may face a loss of future funding due to the lack of independence and rigorous standards in the audit space. Safeguarding the confidentiality of information related to an audit is a key component of the auditing process. Moreover, Iowa has a disciplinary process already in place should an ethical violation occur. If we can assist further, please contact Marta Zaniewski, AICPA’s vice president of state regulatory and legislative affairs at Marta.Zaniewski@aicpa-cima.com.

Sincerely,

Jennifer Burns, CPA
Chief Auditor – AICPA

cc:  Representative Austin Harris, Vice Chair, House State Government Committee
     Representative Amy Nielsen, Ranking Member, House State Government Committee
     Representative Austin Baeth
     Representative Michael R. Bergan
     Representative Jacob Bossman
     Representative Taylor R. Collins
Representative Jeff Cooling
Representative Jon Dunwell
Representative Eric J. Gjerde
Representative Cindy Golding
Representative Craig P. Johnson
Representative Bobby Kaufmann
Representative Shannon Lundgren
Representative Heather Matson
Representative Michael V. Sexton
Representative Brent Siegrist
Representative Megan L. Srinivas
Representative Sharon Sue Steckman
Representative John H. Wills
Representative Derek Wulf
Representative David Young
Representative Adam Zabner
Dawn Latham, IOM, CAE, Chief Executive Officer, Iowa Society of CPAs