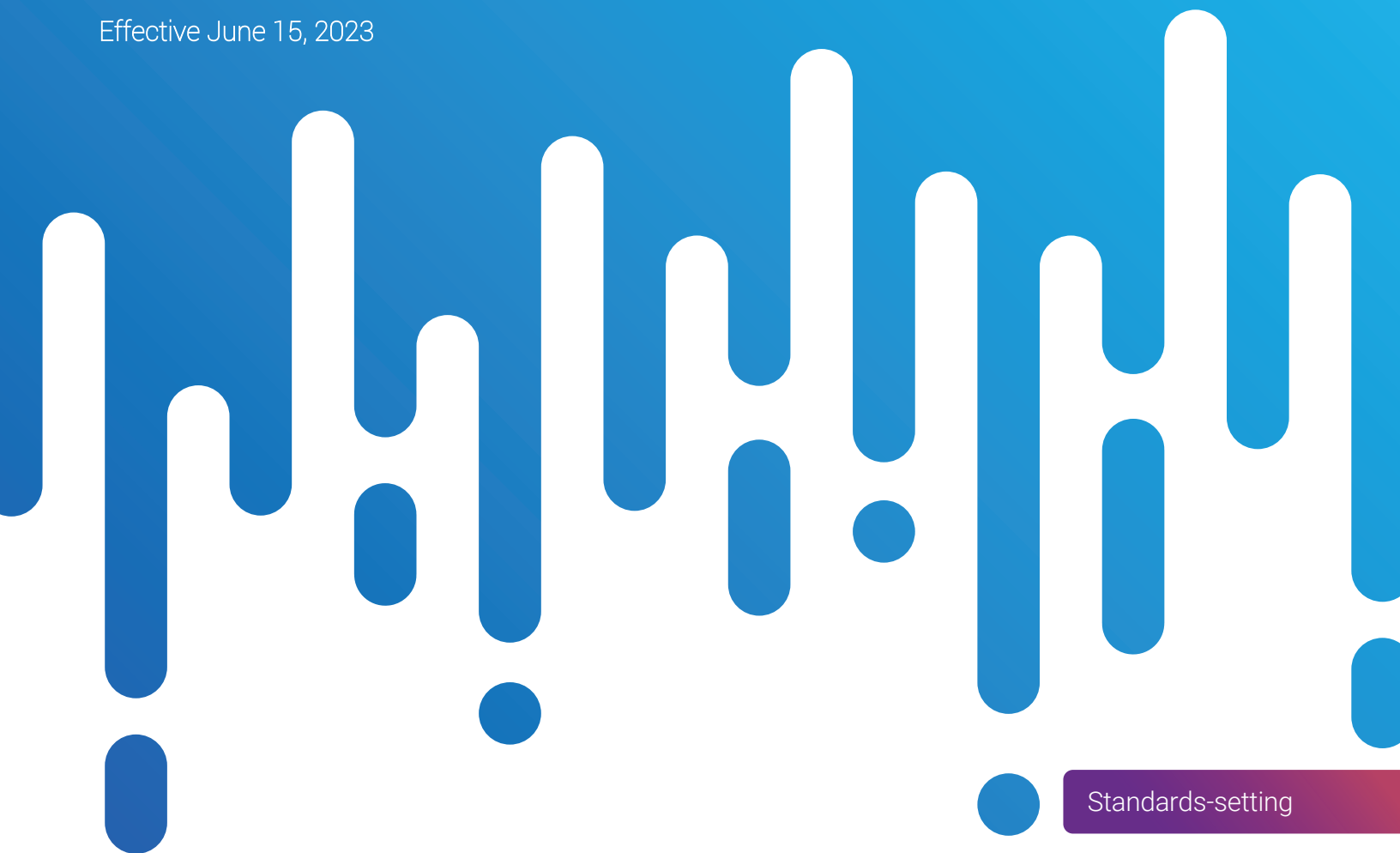




Professional Ethics Division

New and revised definitions related to
Compliance Audits
ET sec. 0.400

Effective June 15, 2023



Standards-setting

December 2022

Ethics interpretations and other guidance are promulgated by the executive committee of the Professional Ethics Division to provide guidelines about the scope and application of the rules but are not intended to limit such scope or application. Publication in the *Journal of Accountancy* online constitutes notice to members.

The Professional Ethics Executive Committee adopted the following at its November 2022 meeting:

- New definitions “compliance audit” and “compliance audit client” (ET sec. 0.400)
- Revised definition “financial statement attest client” (ET sec. 0.400)

The new definitions and revised definition are effective for compliance audits commencing after June 15, 2023, with early implementation allowed.

Terms defined in the AICPA Code of Professional Conduct are italicized in this document. If you’d like to see the definitions, you can find them in “Definitions” ([ET sec. 0.400](#)).

Contents

New definition “compliance audit” 1
New definition “compliance audit client” 2
Revised definition “financial statement attest client” 3

New definition “compliance audit”

0.400 Definitions

.09 **Compliance audit.** An *attest engagement* that is performed in accordance with AU-C section 935. When a *compliance audit* performed in accordance with AU-C section 935 also includes separate reporting under AU-C section 725 or 805, this definition also extends to the audit of the schedule or statement that will accompany the AU-C section 935 report.

A *compliance audit* may include multiple *compliance audit clients*. For example, multiple *compliance audit clients* may have amounts included in a schedule of expenditures of federal awards in a *compliance audit* performed in accordance with the Uniform Guidance.

Nonauthoritative questions and answers regarding *compliance audits* are available in Q&A section 10, Definitions.

New definition “compliance audit client”

0.400 Definitions

.10 **Compliance audit client.** An entity with respect to which a *compliance audit* is performed. *Members* should apply the “Independence Rule” [1.200.001] and related *interpretations* applicable to an *attest client* to the *compliance audit client*.

To the extent the *compliance audit* includes amounts from multiple entities in a schedule or statement, an entity would not be considered a *compliance audit client*, and, therefore, the “Independence Rule” [1.200.001] and related *interpretations* would not apply with respect to an entity, if that entity

- a. is not subject to compliance audit procedures and
- b. includes amounts in the schedule or statement that are trivial and clearly inconsequential to the schedule or statement as a whole.

When an entity meets the definition of a *compliance audit client*, the “Client Affiliates” interpretation [1.224.010] and the “State and Local Government Client Affiliates” interpretation [1.224.020] do not apply.

Nonauthoritative questions and answers regarding *compliance audit clients* are available in Q&A section 10, Definitions.

Additions appear in ***boldface italic***.

Revised definition “financial statement attest client”

0.400 Definitions

- .18 **Financial statement attest client.** An entity whose *financial statements* are audited, reviewed, or compiled when the *member’s* compilation report does not disclose a lack of *independence*.

This definition does not include a compliance audit client. Therefore, the “Client Affiliates” interpretation [1.224.010] and the “State and Local Government Client Affiliates” interpretation [1.224.020] would not apply with respect to the compliance audit client.

[See [Revision History Table](#).]

Nonauthoritative questions and answers regarding compliance audit clients are available in Q&A section 10, Definitions.



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