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September 1, 2022

Ms. Toni Lee-Andrews
Director of the AICPA Professional Ethics Division AICPA
220 Leigh Farm Road
Durham, North Carolina 27707

RE: AICPA Professional Ethics Executive Committee Exposure Draft: Proposed new and revised definitions and interpretations – Compliance audits

Dear Ms. Lee-Andrews:

We are pleased to respond to the request for public comment on the AICPA Professional Ethics Executive Committee's (PEEC) proposed revised definitions and interpretations of the AICPA Code of Professional Conduct (the Code or ET) on Compliance Audits (the "proposed revisions"). Overall, we are supportive of the proposed revisions and PEEC's efforts to update and improve the effectiveness of its independence interpretations and definitions, such that they do not create arbitrary independence violations in situations that do not impair an auditor's objectivity, integrity, or professional skepticism.

We concur with PEEC's position regarding the questions presented for specific comment, so we did not respond to each question individually. We concur with the new and proposed revisions to the definitions and interpretations as drafted, and offer the following considerations on #18 of the Exposure Draft:

- #18 notes, 'A compliance audit may include multiple entities in the reporting entity's schedule or statement. For example, in a compliance audit performed in accordance with Uniform Guidance for a state and local government, there may be multiple entities (departments, agencies, component units) that include amounts in the reporting entity's schedule of expenditures of federal awards (SEFA).'

This seems to indicate that an entity does not need to be a legally separate entity and can instead be a department within a legal entity. Consideration of independence at the legal entity level is standard, but we are unsure how this would work at a department level. In other words, how would a department which rolls up into an agency or component unit be considered? We recommend clarifying whether there is a legal entity concept here associated with 'entity'.

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We appreciate PEEC's consideration of our feedback. If you have any questions regarding our comments included in this letter, please do not hesitate to contact Shawn Gilbert at scgilbert@kpmg.com or Bill McKeown at wmckeown@kpmg.com.

Very truly yours,

KPMG LLP

CC: Brian S. Lynch, Chair
Professional Ethics Executive Committee