



National Association of State Boards of Accountancy

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August 27, 2022

Professional Ethics Executive Committee
c/o Toni Lee-Andrews, Director
American Institute of Certified Public Accountants
1345 Avenue of the Americas
New York, NY 10105

Via e-mail: ethics-exposuredraft@aicpa.org

Re: Exposure Draft: Proposed New and Revised Definitions and Interpretations - Compliance Audits

Dear Members and Staff of the AICPA Professional Ethics Executive Committee (PEEC):

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the above-referenced Exposure Draft, *Proposed New and Revised Definitions and Interpretations - Compliance Audits* (the Exposure Draft). NASBA's mission is to enhance the effectiveness and advance the common interests of State Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. State Boards are charged by law with protecting the public.

In furtherance of that objective, NASBA offers the following overall comments as well as comments to the specific requests for comment as presented in the explanatory memorandum to the Exposure Draft.

Overall Comments

NASBA appreciates the PEEC's efforts in proposing changes to the Code of Professional Conduct (Code) that will provide clarity to CPAs who perform compliance audits by aligning requirements with applicable risks.

We do not believe that AU-C 806 engagements should be included in the scope of the Exposure Draft. In an AU-C 806 engagement, the primary focus is an opinion on the financial statements and any reporting on compliance is a "by-product" (to use the terms in AU-C 806) of the financial statement audit. In other words, while there may be reporting on compliance, it is inseparable from the financial statement audit and independence in the financial audit context must be applied. Conversely, in an AU-C 935 engagement, the primary focus of the compliance audit is to report on the entity's compliance and it may be possible to separate consideration of independence for entities

within the compliance audit client (assuming that they meet the criteria). As a result, we believe that AU-C 806 engagements should not be subject to the proposed revisions in this Exposure Draft.

Comments on Specific Questions

a. Is the definition of “compliance audit” clear? If not, please explain how it should be clarified?

NASBA believes that additional clarity could be achieved if the definition of compliance audit was expanded to include non-governmental examples of what might constitute a compliance audit, such as a large, multi-location commercial publicly traded company; a real estate developer subject to a compliance audit in connection with the terms of lease agreements (if AU-C 806 engagements are retained in the scope of the Exposure Draft) and government grants; and for-profit entities required to undergo compliance audits as a result of the receipt of federal pandemic loans and/or grants.

b. Is the definition of “compliance audit attest client” clear? If not, please explain how it should be clarified?

NASBA believes that the definition of “compliance audit attest client” would be enhanced if the phrase “trivial and clearly inconsequential” were replaced with the term “clearly trivial.” The term “clearly trivial” is defined in AU-C Section 450.A2. In many circumstances, the independent auditor performing a financial statement audit will also be engaged to perform a compliance audit for the same client. Greater clarity and consistency would be achieved if the extant term as defined in Generally Accepted Auditing Standards were used in the Code.

c. Do you agree that there should be an exception to the independence requirements in a compliance audit for entities that are not subject to compliance audit procedures and report amounts that are trivial and clearly inconsequential? If you disagree, please explain why.

NASBA agrees that there should be an exception to the independence requirements in a compliance audit for entities that are not subject to compliance audit procedures and report amounts that are trivial and clearly inconsequential. See b. above concerning the use of the term “trivial and clearly inconsequential.”

d. Do you agree that the affiliates interpretations should not apply in a compliance audit? If you disagree, please explain why.

Assuming that the guidance relates solely to AU-C 935 engagements, NASBA agrees that the affiliates interpretations should not apply in a compliance audit.

e. Do you agree that the revision in each of the affiliates interpretations serves as a useful reminder that these interpretations do not apply to specific attest engagements (e.g., compliance audits and engagements performed under the SSAEs)? If you disagree, please explain why.

NASBA agrees that the revision in each of the affiliates interpretations serves as a useful reminder that these interpretations do not apply to specific attest engagements.

f. Do you agree that entities that are not subject to compliance attestation procedures in an engagement performed under the SSAEs are not considered responsible parties and therefore are not subject to the "Independence Standards for Engagements Performed in Accordance with Statements on Standards for Attestation Engagements" subtopic (ET section 1.297)? If you disagree, please explain why.

NASBA agrees.

g. Do you agree that the effective date provides adequate time to implement the proposals? If you disagree, please explain why.

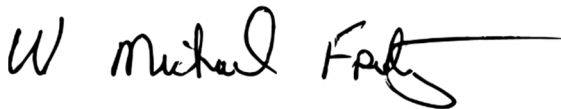
NASBA agrees that the effective date provides adequate time to implement the proposals.

h. What independence requirements applicable to compliance audits would you like further explained through nonauthoritative guidance?

NASBA has no additional comments.

Again, we appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,



W. Michael Fritz, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO