



**Office of the Washington State Auditor  
Pat McCarthy**

August 18, 2022

Via Electronic Mail

AICPA Professional Ethics Executive Committee

RE: Response to PEEC's Exposure Draft – *Proposed new and revised definitions and interpretations for Compliance Audits*

The Office of the Washington State Auditor appreciates the opportunity to give input on the Committee's project to consider independence when performing compliance audits. In our constitutional role as the auditor of public accounts for the State of Washington, our Office annually performs over 350 single audits of the State and all types of local governments.

Our responses to the questions asked by the Auditing Standards Board are included below:

*Issues for Consideration:*

1. *Is the definition of "compliance audit" clear?*

Yes

2. *Is the definition of "compliance audit attest client" clear?*

Yes

3. *Do you agree there should be an exception to 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?*

Yes. However, we noticed the exposure draft uses the term "trivial and clearly inconsequential." We would suggest the term "clearly trivial" be used instead, since this is the term used and defined in AU-C 450.05. We see no conceptual reason for auditors to calculate different thresholds for purposes of determining applicability of this independence requirement and for actually conducting the audit. If the threshold is intended to be the same – which we presume to be the case – then the same term should be used.

Alternatively, we also think it would be appropriate for this threshold to be raised to "immaterial." If the entity is not subject to audit procedures and amounts reported are

also immaterial to the schedule, it would – by definition – neither have an impact on the audit nor on users.

4. *Do you agree that the affiliates interpretations should not apply in a compliance audit?*

Yes, since a compliance audit is different in nature from a financial audit.

5. *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?*

Yes; this is helpful to alert practitioners to the exception when looking at the affiliates interpretation.

6. *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 ET section 1.297?*

Yes

7. *Do you agree that the effective date provides adequate time to implement the proposals?*

Yes

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

We found the triviality example used in paragraphs 27-31 of the exposure draft to be unrealistic and therefore unhelpful. In future explanations of this exception, we would suggest a more realistic amount of \$500,000 as an example of clearly trivial for a Schedule of Expenditures of Federal Awards (SEFA) that reports \$1 billion. \$500,000 is 5% of 1% of \$1 billion, which is generally accepted as a quantitative triviality threshold. \$500,000 is also well below the threshold for even a type B risk assessment on a \$1 billion SEFA and thus clearly inconsequential to single audit planning.

Thank you for the opportunity to provide our comments. Any inquiries may be directed to me at [REDACTED], or Scott DeViney, CPA, Assistant Director of Quality Assurance at [REDACTED].

Sincerely,



Scott Woelfle, CPA  
Director for Quality Assurance and Innovation