



August 22, 2022

Mr. Brian S. Lynch  
Chair, AICPA Professional Ethics Executive Committee  
AICPA  
220 Leigh Farm Road  
Durham, NC 27707

By e-mail: [ethics-exposedraft@aicpa.org](mailto:ethics-exposedraft@aicpa.org)

**Re: AICPA Professional Ethics Division Exposure Draft: *Proposed New and Revised Definitions and Interpretations – Compliance Audits***

Dear Mr. Lynch:

The New York State Society of Certified Public Accountants (NYSSCPA), representing more than 21,000 CPAs in public practice, industry, government and education, welcomes the opportunity to respond to the above-captioned exposure draft.

The NYSSCPA's Professional Ethics Committee deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Victoria L. Pitkin, Chair of the Professional Ethics Committee, at [REDACTED] or Ernest J. Markezin, NYSSCPA staff, at [REDACTED].

Sincerely,

A handwritten signature in black ink that reads 'Lynne M. Fuentes CPA'. The signature is written in a cursive style and is positioned over a faint, light blue watermark of the NYSSCPA logo.

Lynne M. Fuentes  
President

Attachment



**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON**

**AICPA PROFESSIONAL ETHICS DIVISION EXPOSURE DRAFT: *PROPOSED NEW  
AND REVISED DEFINITIONS AND INTERPRETATIONS – COMPLIANCE AUDITS***

**August 22, 2022**

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Steven J. Leifer  
Victoria L. Pitkin**

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**NYSSCPA Staff**

Ernest J. Markezin

## New York State Society of Certified Public Accountants

### Comments on

### ***AICPA Professional Ethics Division Exposure Draft: Proposed New and Revised Definitions and Interpretations – Compliance Audits***

The New York State Society of Certified Public Accountants (NYSSCPA) appreciates the opportunity to provide comments on the AICPA’s Professional Ethics Executive Committee (PEEC) Exposure Draft, *Proposed New and Revised Definitions and Interpretations – Compliance Audits* (Exposure Draft). We offer our general comments and our responses to the specific questions of the Exposure Draft as follows.

#### **General Comments**

PEEC’s proposed revisions to the AICPA Code of Professional Conduct, consisting of new and revised definitions and revised interpretations, provide additional guidance that will be helpful in addressing independence issues that often arise when conducting compliance audits. The stated goal of these additions and revisions, to align requirements and applicable risks, is most appropriate.

We believe, however, that it would be especially useful if explanatory material were provided as part of the revisions, such as that included in the Exposure Draft. This additional material could be provided either as part of the new and revised definitions and interpretations, or as supplementary, nonauthoritative guidance.

#### **Responses to Specific Questions**

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

**Response:** The definition of “compliance audit” refers to a “compliance audit attest engagement.” We believe that the use of both “audit” and “attest” in the same term is redundant and unnecessary. All audit engagements are, by definition, attest engagements. Therefore, all “compliance audit” engagements are attest engagements and do not require the addition of “attest” to identify the engagement appropriately. Contrast this to the definition of a “financial statement attest client” where the attest engagement could be an audit, a review, or a compilation where the accountant is independent of the client. The specific nature of the attest engagement is unclear in the “financial statement attest client” term, while in the “compliance audit attest engagement” the member already knows it is an audit engagement, and therefore should understand an audit engagement to be an attest engagement. We propose discontinuing use of the term “compliance audit attest engagement.”

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

**Response:** Again, the term “attest” is redundant and so the definition should be changed to “compliance audit client.” All audit engagements are attest engagements.

The definition is not entirely clear because the client is defined by what traits the engagement does not have rather than what traits it does have. We believe that when a firm has been engaged to perform a compliance audit in accordance with AU-C 806 or 935, then the firm has a compliance audit client. This definition does not address situations where the member firm is engaged by someone other than the entity upon which compliance audit procedures will be applied.

For example, a school district hires a firm to perform compliance audits on charter schools in their district on compliance with the terms of the schools’ charter agreements. In a charter school audit, the types of issues that one tests include whether the charter school had the requisite number of fire drills during the year, did they submit the requisite attendance records to the district for the school year, or does the charter school use only non-toxic art supplies. Under this scenario, the school district would not meet the definition of the “compliance audit attest client” because no procedures are performed on the district and there are no amounts in the report material, trivial or otherwise. And yet, these types of compliance audits are common.

**Question 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.**

**Response:** Because compliance audits often do not report on **any** amounts, we do not believe that trivial or inconsequential amounts are an appropriate exemption criterion.

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

**Response:** We believe that this issue is already adequately addressed in the affiliates interpretations which specifically state that they apply to financial statement attest clients.

**Question 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.**

**Response:** ET sec.1.224.010.01-.04 already makes clear that the interpretation applies to financial statement attest clients. Therefore, we believe that a specific reminder than the section does not apply to specific attest engagements may be useful, but not required.

**Question 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.**

**Response:** We do not necessarily agree. As with any attest or assurance engagement, the engaging party is not necessarily the responsible party. However, one would want to be independent with respect to the engaging party in such a situation. So, while it is true that if the entity that is not subject to the compliance attestation procedures is not the responsible party, the member should still be independent with respect to them. This is the underlying problem with the proposed definition of compliance audit attest client which relies on the client being the entity upon which compliance procedures are performed.

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

**Response:** We believe the effective date provides adequate time to implement the proposals.

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

**Response:** We suggest clarification as to the requirements for compliance with these rules by engaging parties versus responsible parties.