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August 30, 2022

Professional Ethics Executive Committee  
Professional Ethics Division  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas, 19<sup>th</sup> Floor  
New York, NY 10036

Via Email to [Ethics-ExposureDraft@aicpa.org](mailto:Ethics-ExposureDraft@aicpa.org)

**Re: Comments on Exposure Draft, Proposed new and revised definitions and interpretations; Compliance audits**

Dear Committee Members:

Grant Thornton LLP appreciates the opportunity to comment on the American Institute of Certified Public Accountants (“AICPA”) Professional Ethics Executive Committee’s (“PEEC”) June 2022 Exposure Draft (“Exposure Draft”) which proposes new and revised definitions and revised interpretations of the AICPA Code of Professional Conduct (“the Code”) as follows: new definitions of “compliance audit” (ET sec. 0.400.09) and “compliance audit attest client” (ET sec. 0.400.10), revised definition of “financial statement attest client” (ET sec. 0.400.18, currently 0.400.16), and revised interpretations of “Client Affiliates” (ET sec. 1.224.010) and “State and Local Government Client Affiliates” (ET sec. 1.224.020).

Grant Thornton supports PEEC’s proposal for new and revised definitions and revised interpretations relating to compliance audits. We agree the revisions provide both clarity and relief to members who perform compliance audits by aligning the requirements under the “Independence Rule” (ET sec. 1.200.001) with applicable risks. We also agree the revisions will support the alignment of the cost of compliance with the potential threats to independence and consistent application by members in practice.

While Grant Thornton supports the revisions and definitions set forth in the Exposure Draft, we have provided the following comments for PEEC’s consideration.

### **Specific comments on Exposure Draft**

Below are Grant Thornton's specific comments as requested in the Exposure Draft.

Grant Thornton agrees with items a. through g. noted as specific request for comment in the Exposure Draft and does not have any specific comments to share as a response to these questions. In response to item h. regarding independence requirements applicable to compliance audits, we believe further explanations through nonauthoritative guidance in the format of a frequently asked questions (FAQs) document would assist members in complying with the proposed revisions.

We suggest the nonauthoritative guidance incorporate the supporting analysis and examples provided in the Exposure Draft as well as highlight other scenarios and examples to address the following:

- clarifying the scope of the revisions and definitions apply regardless of whether the compliance auditor also performs the financial statement audit but do not impact the independence requirements for attest engagements that are not considered compliance audits
- reporting on a grant award or schedule of expenditures or other similar scope of services that may also be considered a compliance audit as opposed to a financial statement audit or other attestation engagement
- the differences between the reporting objectives of a compliance audit versus a financial statement audit
- the evaluation of the subject to audit and trivial and clearly inconsequential or the affiliate exception, including the application of professional judgment when determining what amounts are considered trivial and clearly inconsequential. For example, the following scenarios can be considered:
  - the evaluation of entities that meet the compliance audit attest client definition when the entities are determined to be subject to the compliance audit procedures without consideration of reporting trivial and clearly inconsequential amounts
  - scenarios when entities perform activities to support the compliance audit attest client, or the subject matter included in the compliance audit, that may result in such entities being considered a compliance audit attest client and are subject to the requirements under the "Independence Rule" as well as services for and relationships with such entities that may create independence threats
  - scenarios when entities do not meet the not subject to audit and trivial and clearly inconsequential exception as the entity is not subject to the compliance audit procedures but is reporting amounts that are not trivial and clearly inconsequential and services for and relationships with such entities that may create independence threats

- other situations and related examples of other relationships or circumstances that may create threats to independence and the application of the “Conceptual Framework for Independence” (ET sec. 1.210.010)
- scenarios when entities perform activities to support the compliance audit attest client, or the subject matter included in the compliance audit, that may result in such entities not being considered a compliance audit attest client and are subject to evaluation under the “Conceptual Framework for Independence” as well as services for and relationships with such entities that may create an independence threat.

**Other comments**

Grant Thornton has no other comments other than our specific comments noted above.

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We would be pleased to discuss our comments with you. If you have any questions, please contact Anna Dourdourekas, National Partner in Charge, Ethical Standards, at [REDACTED].

Sincerely,

/s/ Grant Thornton LLP