Q&As for Compliance Audits

Q&A Section 10, Definitions, .01–.06

You can find these and other Q&As here:

- **Online Ethics Library** — Look for *Ethics Questions and Answers* to discover a range of topics from independence to records requests and more.

- **AICPA Technical Questions and Answers** — In addition to ethics Q&As, this resource has an array of technical content for auditing and accounting, financial reporting, compilation, and review standards.

Terms defined in the AICPA Code of Professional Conduct are italicized in this document. If you’d like to see the definitions, you can find them in “Definitions” ([ET sec. 0.400](#)).

.01 Examples of a Compliance Audit

Inquiry — What are some examples of a compliance audit?

Reply — A compliance audit is an attest engagement performed in accordance with AU-C section 935, *Compliance Audits*.² When a compliance audit performed in accordance with AU-C section 935 also includes separate reporting under AU-C section 725, *Supplementary Information in Relation to the Financial Statements as a Whole*, or AU-C section 805, *Special Considerations — Audits of Single Financial Statements and Specific Elements, Accounts, or Items of a Financial Statement*, this definition also extends to the audit of the schedule or statement that will accompany the AU-C section 935 report. Examples of compliance audits may include the following:

a. **Compliance audits** performed in accordance with the U.S. Department of Housing and Urban Development *Consolidated Audit Guide*

b. **Compliance audits** subject to the U.S. Department of Education Office of Inspector General’s *Guide for Audits of Proprietary Schools and for Compliance Attest Engagements of Third-Party Services Administering Title IV Programs*

c. **Compliance audits** performed under Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), including program-specific audits

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¹ All ET sections can be found in AICPA *Professional Standards*.

² All AU-C sections can be found in AICPA *Professional Standards*.
When the *attest engagement* is not performed in accordance with AU-C section 935, the engagement does not meet the definition of a *compliance audit*. Examples of engagements that are not *compliance audits* include the following:

- Engagements performed in accordance with the Statements on Standards for Attestation Engagements (SSAEs) (For these engagements, the *member* should refer to the requirements in the “Independence Standards for Engagements Performed in Accordance With Statements on Standards for Attestation Engagements” subtopic [ET sec. 1.297] under the “Independence Rule” [ET sec. 1.200.001].)

- **Financial statement attest engagements**

- Audits performed in accordance with AU-C sections 725 or 805, when such audits are not performed in conjunction with an AU-C section 935 compliance audit

- Compliance attest engagements subject to the U.S. Department of Education Office of Inspector General’s *Guide for Audits of Proprietary Schools and for Compliance Attest Engagements of Third-Party Services Administering Title IV Programs* performed in accordance with the SSAEs

**.02 Multiple Compliance Audit Clients**

*Inquiry* — When could there be multiple *compliance audit clients* in a *compliance audit*?

*Reply* — When a *compliance audit* includes amounts from multiple entities in a schedule or statement, each entity is considered a *compliance audit client* unless the entity is not subject to compliance audit procedures and also includes amounts in the schedule or statement that are trivial and clearly inconsequential to the schedule or statement as a whole, as described in the definition of *compliance audit client*.

For example, in a *compliance audit* for a state and local government performed in accordance with the Uniform Guidance, multiple agencies, departments, or component units within the state and local government may include amounts in the schedule of expenditures of federal awards (SEFA). Each entity reporting amounts in the reporting entity’s SEFA is a *compliance audit client* unless it is not subject to compliance audit procedures and also includes amounts in the schedule or statement that are trivial and clearly inconsequential to the schedule or statement as a whole.

**.03 Trivial and Clearly Inconsequential**

*Inquiry* — How should a *member* determine what is “trivial and clearly inconsequential” when identifying the *compliance audit client* or *compliance audit clients*?

*Reply* — Determining whether an entity in a *compliance audit* includes amounts in the schedule or statement that are trivial and clearly inconsequential to the schedule or statement as a whole...
is a matter of professional judgment that involves consideration of both quantitative and qualitative factors. The member may look to the Statements on Auditing Standards for additional guidance on what may be relevant when considering what is trivial and clearly inconsequential.

.04 Changes in the Entities That Are the Compliance Audit Clients

*Inquiry* — Could the entities that are compliance audit clients change during the period of professional engagement?

*Reply* — Yes. The member should be alert to changes to the determination of the compliance audit client or compliance audit clients throughout the period of the professional engagement. An entity that was excluded from the definition of compliance audit client may become a compliance audit client either because it becomes subject to the compliance audit procedures or because it includes amounts in the schedule or statement that are no longer trivial and clearly inconsequential to the schedule or statement as a whole. In other words, the entity is no longer excluded from being considered a compliance audit client because it no longer meets both criteria described in the definition of compliance audit client, and therefore, the independence requirements should be applied.

.05 Using the Conceptual Framework in a Compliance Audit

*Inquiry* — In a compliance audit, when should a member apply the “Conceptual Framework for Independence” (ET sec. 1.210.010)?

*Reply* — Upon encountering relationships or circumstances that may create threats to independence, the member should apply the “Conceptual Framework for Independence” to evaluate whether threats are at an acceptable level.

For example, when an entity does not include amounts in the schedule or statement (and therefore does not meet the definition of a compliance audit client) but supports a compliance audit client in a way that results in that entity being subject to compliance audit procedures, the member should use the “Conceptual Framework for Independence” to evaluate threats to independence related to any relationships or circumstances that exist with such entity.

In a compliance audit subject to the Uniform Guidance, there may be an entity that does not include amounts in the SEFA but provides support activities for a compliance audit client. Those activities, such as providing accounting and financial reporting support for the client, may be subject to compliance audit procedures.

If the member is considering providing financial information system design services, for example, to an entity that is providing accounting and financial reporting support to the compliance audit client, the member should use the “Conceptual Framework for Independence” to evaluate whether threats (specifically, the self-review threat) are at an acceptable level or whether threats can be reduced to an acceptable level by applying appropriate safeguards.
.06 Evaluating Independence When Performing a Financial Statement Audit and a Compliance Audit for the Same Client

Inquiry — When performing a financial statement audit and a compliance audit for the same client, how should the independence requirements be applied?

Reply — When performing a financial statement audit and a compliance audit for the same client, members should comply with the independence requirements for each attest engagement. The entities requiring independence in each attest engagement may be the same or may be different. Therefore, an evaluation of each attest engagement should be performed to identify all entities requiring independence.