



August 11, 2022

Professional Ethics Division
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

To Whom it May Concern:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the AICPA Professional Ethics Division's proposed new and revised definitions and interpretations entitled *Compliance Audits*.

Below are our responses to the requests for comments posed in the exposure draft.

Requests for Comment

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

Yes, the definition is clear.

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

Yes, the definition is clear.

- 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.*

Yes, we agree with this exception. Multiple entities reporting amounts on the reporting entity's schedule of state or federal awards could report trivial or inconsequential amounts. Relationships with these types of entities are unlikely to create significant independence threats, and absent an exception, the cost of compliance would outweigh the benefits. Although we agree with the exception, the example of \$1,000 out of \$1 billion in paragraph 30 is excessively conservative and could diminish its use if auditors perceive this as a guideline for applying the exception.

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

Yes, we agree.

- 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.*

Yes, we agree.

- 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.

Yes, we agree.

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

Yes, we agree.

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

We believe additional guidance surrounding the trivial and clearly inconsequential description is needed so that auditors do not base their assessments on the \$1,000 out of \$1 billion example in the current draft without considering additional context and factors when exercising their professional judgement to determine what is trivial and clearly inconsequential.

We appreciate the opportunity to respond to such an important document. Should you have any questions or need additional information regarding our response, please contact Josh Winfrey of NSAA at (859) 276-1147 or me at (860) 240-8651.

Sincerely,

John C. Geragosian
President, NSAA