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August 26, 2022

Ms. Toni Lee-Andrews
Director, Professional Ethics Division
American Institute of Certified Public Accountants
220 Leigh Farm Road
Durham, NC 27707-8110

GAO's Response to the AICPA's Professional Ethics Executive Committee's *Proposed New and Revised Definitions and Interpretations: Compliance Audits*, June 2022

Dear Ms. Lee-Andrews:

This letter provides GAO's comments on the exposure draft entitled *Proposed New and Revised Definitions and Interpretations: Compliance Audits*, which was prepared by the American Institute of Certified Public Accountants' (AICPA) Professional Ethics Executive Committee (PEEC).

GAO establishes standards for performing high-quality audits of government organizations, programs, activities, and functions and of government assistance received by contractors, nonprofit organizations, and other nongovernment organizations with competence, integrity, objectivity, and independence.¹ Our standards, often referred to as generally accepted government auditing standards (GAGAS), are to be followed by auditors and audit organizations when required by law, regulation, agreement, contract, or policy.

For financial audits and attestation engagements, GAGAS incorporates by reference the AICPA's Statements on Auditing Standards. When conducting GAGAS engagements, GAGAS has independence requirements and a *GAGAS Conceptual Framework Approach to Independence* for auditors to identify threats to independence, evaluate the significance of the threats identified, both individually and in the aggregate; and apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level. GAGAS is the authoritative source of independence requirements for GAGAS engagements.

The AICPA *Code of Professional Conduct* (the Code) is the authoritative source of AICPA independence requirements. For independent public accountants conducting attest engagements under the Statements of Auditing Standards, when an attest engagement is subject to GAGAS, the auditor must comply with the GAGAS independence requirements as well as the Code. The subject matter of this exposure draft predominantly relates to audits that are subject to GAGAS.

In our view, the proposed changes are not sufficiently clear. These proposed changes may not produce appropriate and consistent responses by auditors. We are concerned with the potential

¹GAO, *Government Auditing Standards: 2018 Revision Technical Update April 2021*, [GAO-21-368G](#) (Washington, D.C.: April 2021).

impact these proposed changes could have on GAGAS engagements. We believe the following points should be addressed before the proposed changes are issued.

1. The compliance audit definition in paragraph .09 states that a compliance audit is an “attest engagement that is performed under the Statements on Auditing Standards when the member is requested to report on an entity’s compliance with specific requirements.” It further states that a “compliance audit attest engagement may include multiple compliance audit attest clients.”

Although the definition asserts that a compliance attest engagement may have multiple compliance attest clients, it does not explain how or why this could happen or the implications of having multiple attest clients. It also does not address whether there will be separate engagements for each attest client, or whether there will be separate auditor’s reports or one auditor’s report. We believe the definition could be improved by incorporating additional explanatory information to make it more clear and understandable.

2. The compliance audit definition in paragraph .09 also states that “For example, multiple compliance audit attest clients may have amounts included in a schedule of expenditures of federal awards (SEFA) in a compliance audit performed in accordance with the Uniform Guidance.”

Paragraph .09 does not sufficiently elaborate on “multiple compliance audit attest clients.” The example is unclear and does not explain or illustrate how there could be multiple compliance audit attest clients that have amounts on the SEFA in a compliance audit performed in accordance with title 2 of the *U.S. Code of Federal Regulations*, part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

In addition, paragraph 28 provides another example that states “For example, a state government compliance audit subject to Uniform Guidance may include hundreds of entities (departments, agencies, component units) reporting federal program expenditures on a reporting entity’s SEFA. Federal program expenditures on the SEFA could total over \$1 billion.” This example is unclear and fails to illustrate how there could be multiple compliance audit attest clients with amounts on a SEFA.

3. The compliance audit attest client definition paragraph .10 states that “an entity with respect to which a compliance audit is performed, unless the entity
 - (a) is not subject to compliance audit procedures and
 - (b) reports amounts that are trivial and clearly inconsequential.”

When an entity meets this definition, it is not considered a financial statement attest client.”

The underlying rationale for including paragraph .10 (a) “unless the entity is not subject to compliance audit procedures” in the proposed definition is unclear. We believe the definition could be improved by incorporating additional explanatory information to make it more clear and understandable.

The compliance audit attest client definition paragraph .10 (b) states that unless the entity reports amounts that are “trivial and clearly inconsequential” the entity would not be a compliance audit attest client if both (a) and (b) are met. However, the context and the basis for which the auditor is to determine trivial and clearly inconsequential is undefined. We

suggest that trivial and clearly inconsequential be defined within the context of the proposed paragraph.²

In summary, we are concerned with the potential impact these proposed changes could have on GAGAS engagements. We believe our comments should be addressed before the proposed changes are issued.

Thank you for the opportunity to comment on these important issues. Because of the significance of these matters on GAGAS audits, we would like to discuss our comments with you. Please contact me at (202) 512-3133 or dalkinj@gao.gov.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is stylized with a large initial "J" and a long horizontal stroke at the end.

James R. Dalkin
Director
Financial Management and Assurance

²"Trivial" is similar to "clearly trivial" defined in AU-C 450, *Evaluation of Misstatements Identified During the Audit*, para. .05, for financial statement audits.