



National State Auditors Association

April 30, 2009

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Ms. Sharon Macey
Audit and Attest Standards
AICPA
1211 Avenue of the Americas
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Dear Ms. Macey:

On behalf of the National State Auditors Association, we appreciate the opportunity to respond to the AICPA Auditing Standards Board's proposed Statement on Auditing Standards (SAS) entitled, *Compliance Audits*.

We generally agree with the provisions in the exposure draft. We believe it appropriately updates and clarifies the auditor's responsibilities in a compliance audit and provides helpful guidance for those auditors auditing and reporting on an entity's compliance with applicable compliance requirements. However, we do have the following comments we believe the Board should consider as it finalizes this standard.

General

- The sampling audit guide and AU 350 address sampling for tests of internal controls and sampling for substantive detail tests, but not "tests of compliance." This exposure draft does not address sampling requirements for compliance testing, but it is understood that AU 350 applies. For clarification, we suggest that an application guidance paragraph be added to bridge the terms substantive details tests and tests of compliance.
- The application guidance in the proposed SAS occasionally uses OMB Circular A-133 audits in its examples, which we appreciate. We also understand that the Board was careful to create a SAS for compliance audits that would apply to all types of compliance audit requirements that meet the conditions of paragraph 1. However, since single audits are the most common type of compliance audit anticipated, and because the PCIE study recommended that the AICPA update AU section 801 to address the problems noted in that study, we believe this proposed SAS should clearly indicate that when an auditor is performing a single audit, this proposed SAS applies. To accomplish this, we recommend that a new paragraph labeled as A1, and referenced to paragraph 1, be added as follows:

Common examples of government audit requirements that meet the conditions described in paragraph 1 are Single Audits conducted in accordance with OMB Circular A-133; compliance audits of specific federal programs conducted in accordance with a federal agency's requirements; and compliance audits of state programs conducted in accordance with state laws or regulations.

Paragraph Specific

- Paragraph 1 – We believe the Board should consider revising this paragraph by inserting "or required by law or regulation to" after "engaged to." Government audit organizations that are mandated to perform audits are not *engaged* to perform the audits. The audit organization typically initiates the audit process.

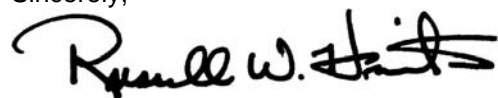
- Paragraph 3 – There is some confusion as to when an auditor would follow the proposed SAS and when the auditor would be required solely to follow the SSAE relating to compliance. We suggest the Board consider revising paragraph 3, and possibly paragraph 1, to make it clear that the SSAE should be followed when a government audit requirement calls for an examination, but does not require GAAS and GAGAS to be followed
- Paragraph 7 – Because the yellow book does not incorporate the AICPA’s general standards, but does incorporate the field work and reporting standards, there seems to be some confusion with regard to this paragraph. We suggest the Board clarify this paragraph as it relates to “certain standards and requirements” and “supplemental to GAAS.”
- Paragraph 8b – *Editorial comment* – We suggest the Board consider revising this paragraph to read “Establishing and maintaining **effective** controls...”
- Paragraph 11 – The definition of *audit findings* is limited to matters required to be reported. Because government auditors often communicate important issues as findings even if the issues are not required to be reported by the standards, we suggest the Board consider adding an application guidance paragraph that states that nothing precludes the auditor from reporting findings in addition to those required to be reported by the standards and the government audit requirement.
- Paragraph 15 – We suggest the Board revise this paragraph as follows, “The auditor should perform risk assessment procedures to obtain a sufficient understanding, **for each** government program **selected for testing**, of the applicable compliance requirements and internal control over compliance with the applicable compliance requirements.”
- Paragraph 17 – We suggest the Board revise this paragraph as follows, “**For the government programs selected for testing**, the auditor should assess the risks of material noncompliance whether due to error or fraud for each applicable compliance requirement.”
- Paragraph 27 – This paragraph refers to paragraphs A22-A23. This reference does not seem appropriate given that those paragraphs do not specifically address the auditor’s evaluation of the sufficiency and appropriateness of audit evidence obtained. Therefore, we suggest the reference to paragraphs A22-A23 be deleted.
- Paragraph 30g, 32c – In both paragraphs, the proposed SAS uses the term “*Government Auditing Standards*” regarding elements of the auditor’s report on compliance or internal control over compliance. This term is not consistent with the Yellow Book (July 2007 Revision) that requires the auditor to make reference to “generally accepted government auditing standards” (see Yellow Book paragraphs 1.03, 1.12, and 5.05). We suggest the following revisions to the proposed SAS to remedy this:
 - Page 8 (footnote 1) – Revise the last sentence to read “In this Statement on Auditing Standards, the acronym GAGAS is used to represent generally accepted government auditing standards.”
 - Page 10 – Revise the definition of “*Government Auditing Standards*” to read “Generally accepted government auditing standards. Standards and guidance issued by the Comptroller General of the United States, U.S. Government Accountability Office, for financial audits, attestation engagements, and performance audits. Generally accepted government auditing standards also are known as GAGAS, *Government Auditing Standards*, or the Yellow Book.”
 - Page 14 (paragraph 30g) – Revise this paragraph to read “A statement that the audit was conducted in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in generally accepted government auditing standards, and the governmental audit requirement”
 - Page 16 (paragraph 32c) – Revise this paragraph to read “A statement that the audit was conducted in accordance with auditing standards generally accepted in the United States of

America, the standards applicable to financial audits contained in generally accepted government auditing standards, and the governmental audit requirement”

- Paragraph 30n – To address the existence of governments’ public records laws, we suggest the Board consider adding an application guidance paragraph that indicates that for many governments, these reports are public record and accordingly, the auditor may consider adding language to explain this report is a matter of public record in the restricted use paragraph.
- Paragraph 31i – This paragraph provides that a restricted use paragraph is required for combined reports on compliance and internal control over compliance. However, it is not clear why a combined report would require a restricted use paragraph if neither of the criteria specified in paragraph 30n are met. We suggest the Board add a comment that paragraph 31i should be conditional upon meeting the criteria in paragraph 30n.
- Paragraph A11 – We suggest the Board consider adding in a footnote an acknowledgement of COSO II’s expanded interrelated components as presented in COSO I. In addition, COSO’s monitoring guidance should be referenced. This provides additional guidance that auditors could consider.
- Paragraph A20e – We suggest including an example of management’s written representations as described in paragraph A20e to positively assert, “that management has complied with all applicable compliance requirements” as opposed to stating only that there were no known instances of noncompliance. Furthermore, we recommend revising the language regarding known instances of noncompliance to allow a positive assertion “that management has complied with all applicable compliance requirements except for the instances of known noncompliance which has been disclosed to the auditor.” Management positively asserting their compliance strengthens the language of the representation and places further emphasis on management’s responsibility to identify instances of noncompliance.
- Paragraph A25 – We suggest the Board consider revising the first sentence of this paragraph to indicate that GAGAS requires a written response to audit findings (see paragraphs 5.32 and 5.35 of the yellow book). We suggest the second sentence be revised to read, “The auditor may add a paragraph to his or her written communication disclaiming an opinion on such information.”
- Page 22 – We suggest that the proposed standard be revised to include the consideration of a dual-purpose test, which satisfies both a financial statement auditor objective (tests of controls), as well as a compliance audit requirement. It does not seem that the AICPA has considered dual-purpose testing in drafting this standard, which could result in an auditor performing additional duplicative testing in order to comply with the proposed standard. We suggest the Board add an application guidance paragraph to the documentation section of the proposed standard to further explain how the auditor should document such tests in accordance with the proposed standard.
- Paragraph A28 (Exhibit A) – It is not apparent why paragraphs .31-.32 of AU section 330 would apply to compliance audits but other paragraphs do not. It seems that the entire AU section should not apply to the compliance audit. We suggest the Board consider removing the exception.

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 Sherri Rowland of NSAA at (859) 276-1147 or me at (404) 656-2174.

Sincerely,



Russell W. Hinton
President, NSAA