United States Government Accountability Office
Washington, DC 20548

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Subject: AICPA Auditing Standards Board (ASB) December 2010 Exposure Draft for a proposed Statement on Auditing Standards (SAS), entitled "*Alert as to the Intended Use of the Auditor's Written Communication.*"

This letter provides the U.S. Government Accountability Office's (GAO) comments on the ASB's proposed SAS on the alert as to the intended use of the auditor's written communication.

Overall, we agree with and support the revisions to AU Section 532, with the exception of the requirement for the inclusion of a restriction on use in the alert for engagements performed in accordance with *Government Auditing Standards*. We greatly appreciate the Board's efforts to help address the issue of restricted use requirements in an attempt to achieve greater consistency with the requirements and guidance in *Government Auditing Standards*. Audited financial statements and related auditor reports of government entities are public documents, and public access to these auditor reports is an important element of accountability and transparency over the use of public resources. By removing the requirement for auditors to restrict to specified parties the written communications issued pursuant to engagements performed in accordance with *Government Auditing Standards*, the ASB will address a practice problem for auditors of government entities whose audit reports and related communications are normally made public. However, as described in our responses to the Board's specific questions, we believe further changes are needed to the proposed SAS in order to fully address the practice issue.

We especially appreciate the ASB's establishment of a special task force to work on this issue to balance the special reporting needs and concerns of the private and the public sectors.

Our specific comments on the proposed SAS are detailed in the sections that follow.

Issues for Consideration
The Board asks respondents specifically to consider the following questions:

1. **Should the term restricted use be eliminated and replaced with the term intended use?**

We strongly support eliminating the term *restricted use* and replacing it with the term *intended use*. We also support the clear identification of criteria that auditors should use in their determination of when an alert as to intended use is appropriate.

In our previous letters to the ASB, dated December 22, 2009 and April 30, 2010, we expressed concern over the term *restricted use*. This term is not consistent with the requirements and guidance in *Government Auditing Standards* (GAGAS) and does not serve the public interest in engagements involving public funds. Further, audited financial statements and the related reports of government entities are public documents, and public access to these reports is an important element of providing key information to stakeholders and helping to maintain accountability for the use of public resources.

By eliminating the use of the term *restricted use*, the ASB will address a practice problem for auditors of government programs and entities receiving public funding whose audit reports and related written communications are required to be made public.

2. **When the engagement is also performed in accordance with *Government Auditing Standards* and the written communication pursuant to that engagement is required by law or regulation to be made publicly available, should auditors be permitted to use alert language that describes the purpose of the communication rather than its intended use solely by the specified parties?**

We agree with alert language that describes the purpose of the communication (as described in paragraph 12 a. of the proposed SAS) for engagements performed in accordance with GAGAS, rather than limiting the use of the report solely to specified parties. This distinction is important because auditor reports on GAGAS engagements ordinarily are general use reports intended to be used by stakeholders and interested parties for public accountability purposes.

We disagree, however, with the restriction set forth in paragraph 12 b., which requires that the written communication is not intended to be and should not be used for any other purpose than that specified. As noted above, auditors' communications related to GAGAS engagements are ordinarily general use documents available to the public. Attempting to restrict or limit their use would not serve the public interest and would cause a practice problem for auditors of government programs and entities receiving public funding. Accordingly, we recommend removing paragraph 12 b. from the proposed SAS and revising paragraph A12.

In addition, we encourage the ASB to develop guidance for auditors to use in describing the purpose of written communications on engagements performed in accordance with *Government Auditing Standards* when the written communications are required to be made publicly available, as described in paragraph 12 a. of the proposed SAS. Such guidance could advise auditors to describe the engagement purpose in broad terms that would not preclude the use of these communications in legislative hearings, newspaper articles, and for other purposes that serve the public interest. The AICPA *Government Auditing Standards and Circular A-133 Audit Guide* would be a logical place for such guidance. We would be happy to work with AICPA staff to draft such guidance.

3. **When a single combined report covering both (a) communications that are required to include an alert as to intended use and (b) communications that are for general use, which do not ordinarily include such an alert, is used, should the alert language as to the intended use of the report apply to the single combined report or only to the portion of the report that requires the alert language**?

When a single combined report includes both general use communications and communications that require an alert as to intended use, the intended use alert language should apply only to the portion of the report that requires the alert language. In such a combined auditor's report, the alert should note that the combined report contains separate portions for general use and intended use, and specifically identify the intended use portion.

Responses to Specific Questions

The Board is also seeking comments on changes resulting from applying the clarity drafting conventions and their effect on the content of the proposed SAS. We provide the requested comments below.

1. Are the objectives of the auditor appropriate?

We agree that the objectives to be achieved by the auditor as stated in paragraph 4 of the proposed SAS are appropriate.

2. Have considerations for audits of smaller, less complex entities and governmental entities been dealt with appropriately?

In general, we agree with the governmental considerations included in the proposed standard with the exception of the requirements in paragraph 12 b. We appreciate the special attention to government audits noted by the inclusion of an overarching *Alert for Engagements Performed in Accordance With Government Auditing Standards* requirement, as described in paragraphs 12 a. and A12. This specialized requirement for government engagements is critically important due to the need for enhanced transparency and public accountability for the use of government resources.

Specifically, we agree with the revisions noting that the alert language required by paragraph 8 is not to be used for engagements performed in accordance with *Government Auditing Standards*, and believe it will provide a practical approach for auditors performing engagements in accordance with *Government Auditing Standards.* Further, we agree with the elements of the alert required by paragraph 12 a. and the illustrative language in application paragraph A12. As noted in our response to *Issue for Consideration* No. 2, we recommend deleting paragraph 12 b. from the proposed SAS.

We also are concerned about the prohibition contained in paragraph A36 of Appendix B; Conforming Amendment to another SAS that may cause confusion to auditors performing engagements in accordance with *Government Auditing Standards*. This concern is explained in the following paragraph.

Prohibition in paragraph A36 (page 17)

We recommend that ASB remove the phrase "*…the auditor is not permitted to add other parties as specified parties…*" from the Conforming Amendment to the Clarified SAS *Communicating Internal Control Related Matters Identified in an Audit* (Redrafted) shown in paragraph A36 on page 17 of the Exposure Draft. The use of a prohibition in application material contradicts the clarity drafting conventions and may cause confusion to auditors performing audits of governmental entities. In addition, paragraphs 9-11 of the proposed *Intended Use* standard discuss adding other specified parties. Accordingly, we recommend rewording Paragraph A36, as follows:

> *Considerations Specific to Governmental Entities*
> **A36.** A written communication indicating that no material weaknesses were identified during the audit may be required to be furnished to governmental authorities. As described in paragraph A32, the auditor's written communication may identify the governmental authority as a specified party. ~~in the restricted use paragraph. The;~~ ~~**however,** ***the***~~ ~~auditor is not permitted to add other parties as specified parties.[10]~~

Other Comments

Illustrative Independent Auditor's Report of Municipal Entity

The illustrative Independent Auditor's Report (as shown in Illustration C of paragraph A34 on pages 40 - 42) in the proposed conforming amendments to the Clarified SAS *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* could be improved in two areas. First, the Auditor's Responsibility paragraph should state that the audit was conducted in accordance with *Government Auditing Standards* rather than auditing standards generally accepted in the United States of America. Second, the Intended Use paragraph does not describe the purpose of the written communication as required by paragraph 12 a. of the proposed *Intended Use* SAS, and appears inconsistent with the example shown in paragraph A12 of that SAS.

In order to address these concerns, we recommend that ASB revise the Auditor's Responsibility paragraph accordingly, revise the subheading of the Intended Use paragraph, and include wording in paragraph A34 that is consistent with the requirements and wording in the proposed *Intended Use* SAS, as follows:

> ***Auditor's Responsibility***
>
> Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the *Government Auditing Standards*…. ~~auditing standards generally accepted in the United States of America.~~
>
> ***~~Restriction on~~*** **~~Intended~~** ***~~Use~~*** **Purpose of Communication**
>
> The purpose of this [*report, letter, presentation, or communication*] is to [*describe the purpose of the written communication*]. ~~Our report is intended solely for the information and use of ABC City and Any State and is not intended to be and should not be used by anyone other than these specified parties.~~

Inconsistencies in the Proposed Conforming Amendments to Other SASs

We noted some inconsistencies in the Proposed Conforming Amendments to Other SASs; specifically, there are inconsistencies in the presentation of the requirements in the Conforming Amendments that refer to the requirements of the proposed SAS *Alert as to the Intended Use of the Auditor's Written Communication*. The proposed Conforming Amendments should be consistent and present either: (1) references to paragraph 12 of this proposed *Intended Use* SAS in conjunction with references to paragraphs 7(c) and 8, or (2) references to the proposed *Intended Use* SAS in its entirety in lieu of any references to specific paragraphs. Including footnotes in other SASs that reference paragraphs 7(c) and 8 but do not reference paragraph 12 of the proposed *Intended Use* SAS may result in inconsistent application of the SASs when performing engagements in accordance with *Government Auditing Standards*. The proposed Conforming Amendments would be improved by removing the inconsistencies from the following references:

- Clarified SAS *The Auditor's Communication With Those Charged With Governance* (Redrafted) - footnote 1 to paragraph 17 (page 21 of the exposure draft).
- AU Section 801 *Compliance Audits* - footnote 5 to paragraph 30n (page 34 of the exposure draft). This footnote should refer only to paragraph 12, since paragraph 7 (a-b) is not applicable in compliance audits.
- Clarified SAS *Special Considerations—Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* - footnote 10 to paragraph 20 (page 37 of the exposure draft).

We thank you for considering our comments on these important issues.

Sincerely yours,

Jeanette M Franzel

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