Guidance on Complying with Government Auditing Standards
Reporting Requirements for the Report on Internal Control for
Audits of Certain Entities Subject to the Requirements of the
Sarbanes-Oxley Act of 2002 and Government Auditing Standards
(December 2007)

Certain companies subject to the Securities Exchange Act of 1934 (“issuers”) may be
required to have an audit conducted in accordance with standards issued by both the
Public Company Accounting Oversight Board (PCAOB), as required by the Sarbanes-
Oxley Act of 2002, and the Comptroller General, as contained in Government Auditing
Standards (GAGAS). Some examples include lending institutions that participate in
federally-sponsored loan programs such as housing and education. For such entities,
auditors must meet the requirements of both sets of standards in conducting their work.

Government Auditing Standards may be used in conjunction with standards issued by
the PCAOB, even though these standards are not incorporated into GAGAS. (See
paragraph 1.15b of the July 2007 revision of Government Auditing Standards.) GAO
recognizes that the use of PCAOB’s framework for assessing control deficiencies could
result in inconsistencies in reporting on internal control under GAGAS. In order to
facilitate reporting of internal control deficiencies identified during audits conducted
under both PCAOB and GAGAS standards, to ensure the consistency of information
included in the GAGAS report on internal control, and to assist auditors in complying
with GAGAS, GAO is providing the following guidance:

• Auditors should include in the GAGAS report on internal control (see paragraphs 5.07
  through 5.14) any “material weakness” contained in the opinion on the effectiveness
  of the company’s internal control over financial reporting prepared based on
  PCAOB’s Auditing Standard No. 5—An Audit of Internal Control Over Financial
  Reporting Financial Reporting That Is Integrated with An Audit of Financial
  Statements (AS5). This will provide a consistent basis of reporting material
  weaknesses between the GAGAS report on internal control and the auditor’s opinion
  on management’s assessment of the effectiveness of the company’s internal control
  over financial reporting, commonly referred to as the Section 404 report, as required
  by the Sarbanes-Oxley Act and PCAOB standards.

• To ensure consistency in the type of information that is included in GAGAS reports
  on internal control, auditors who prepare the GAGAS report using “material
  weaknesses” from the PCAOB opinion on the effectiveness of the company’s internal
  control over financial reporting should also include in their report any other control
deficiencies that meet the definitions of “material weakness” or “significant
deficiency” as defined in the American Institute of Certified Public Accountants’
(AICPA) Statement on Auditing Standards No. 112, Communicating Internal Control
Related Matters Identified in an Audit (SAS 112). Such reporting will satisfy the
requirements of paragraph 5.11 of GAGAS.
If auditors elect to include in the GAGAS report the material weaknesses on the basis of the definition of “material weakness” contained in PCAOB’s AS5, the GAGAS report on internal control should clearly state that the PCAOB standards and definition were used, describe the scope of work performed, and provide appropriate definitions of applicable PCAOB terminology.

Auditors are reminded that they are required to comply with all other relevant GAGAS requirements related to reporting deficiencies in internal control, including developing findings and providing recommendations for corrective action if findings are sufficiently developed (see paragraph 5.25), obtaining views of responsible officials (see paragraphs 5.32 through 5.38), ensuring appropriate report distribution (see paragraph 5.44), etc.

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