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United States Government Accountability Office
Washington, DC 20548

December 22, 2009

Ms. Sherry Hazel
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Subject: AICPA Auditing Standards Board (ASB) September 2009 Exposure Draft for a proposed SAS, *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements in Connection With Audited Financial Statements* (Redrafted).

This letter provides the U.S. Government Accountability Office's (GAO) comments on the ASB's proposed SAS on reporting on an entity's compliance with aspects of contractual agreements or regulatory requirements in connection with a financial statement audit. Overall we support the proposed SAS, except for the section on reporting on noncompliance.

Identified Items of Noncompliance

The ASB asked for specific comments on the reporting on compliance with aspects of contractual agreements or regulatory requirements in connection with an audit of financial statements when the auditor has identified one or more items of noncompliance. Specifically, the Board asked the following questions:

1. Should the auditor provide negative assurance when the auditor has identified items of noncompliance?
2. When the items of noncompliance are pervasive, should the auditor be precluded from issuing negative assurance?
3. If the auditor was precluded from issuing negative assurance in the situation in question 2, what form of report should the auditor issue in relation to reporting on compliance with aspects of contractual agreements or regulatory requirements in connection with the audit of financial statements?

Our responses to the questions are as follows:

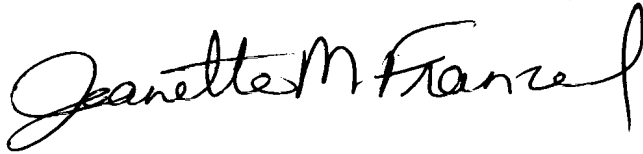
We do not agree with providing negative assurance when the auditor has identified items of noncompliance, since it does not provide the reader with necessary information about other potential noncompliance that may have occurred and was not detected by the auditor's limited procedures. Instead, when reporting on compliance with aspects of contractual agreements or regulatory requirements in connection with the audit of financial statements the auditor should positively report (1) identified instances of noncompliance; (2) that in connection with the audit of the financial statements, the auditor performed limited procedures related to the entity's compliance with aspects of contractual agreements or regulatory requirements; (3) that a financial statement audit is not directed primarily toward obtaining knowledge about noncompliance; and (4) if the auditor had performed additional procedures he or she might have found additional instances of noncompliance.

Comments on Changes Resulting from Applying the Clarity Drafting Conventions and Convergence

We do not have any comments on changes resulting from applying the clarity drafting conventions.

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

Sincerely yours,

A handwritten signature in black ink that reads "Jeanette M. Franzel". The signature is written in a cursive style with a large, looped initial "J".

Jeanette Franzel
Managing Director
Financial Management and Assurance