

April 20, 2009

Ms. Sharon Macey  
AICPA  
1211 Avenue of the Americas  
New York, N.Y. 10036-8775

By e-mail: smacey@aicpa.org

**Re: Proposed Statement on Auditing Standards - *Compliance Audits***

Dear Ms. Macey:

The New York State Society of Certified Public Accountants, representing 30,000 CPAs in public practice, industry, government and education, welcomes the opportunity to comment on the above captioned exposure draft.

The NYSSCPA's Government Accounting & Auditing and Auditing Standards Committees deliberated the exposure draft and prepared the attached comments. If you would like additional discussion with us, please contact Thomas J. Goodfellow, Chair of the Government Accounting & Auditing Committee at (518)-459-3188, Robert N. Waxman, Chair of the Auditing Standards Committee at (212) 755-3400, or Ernest J. Markezin, NYSSCPA staff, at (212) 719-8303.

Sincerely,



Sharon Sabba Fierstein  
President

Attachment

**NEW YORK STATE SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS**

**COMMENTS ON PROPOSED STATEMENT ON AUDITING STANDARDS -  
COMPLIANCE AUDITS**

**April 20, 2009**

**Principal Drafters**

John F. Georger, Jr.  
Thomas J. Goodfellow

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**NYSSCPA Staff:**

Ernest J. Markezin and William R. Lalli

# **New York State Society of Certified Public Accountants**

## **Auditing Standards and Government Accounting & Auditing Committees**

### **Comments on Proposed Statement on Auditing Standards - *Compliance Audits***

The New York State Society of Certified Public Accountants welcomes the opportunity to comment on the AICPA's Proposed Statement on Auditing Standards - *Compliance Audits*. Our comments, both general and specific to various paragraphs, follow:

#### **General Comments**

Consideration should be given to expanding the standard to bridge the two sets of standards (GAAS and GAGAS), including all the reporting standards at the financial statement, as well as the compliance, level.

The standard should describe the reporting entities to which it applies. This would eliminate any confusion as to the perceived applicability only to not-for-profit organizations and to state and local governments. Consider providing examples of for-profit entities that would be subject to the standard, such as public and non-public companies which operate education facilities or receive grants that are subject to the provisions of OMB Circular A-133 and/or GAGAS by the grant contracts.

The proposed standard would be enhanced if it made reference to the compliance requirements that are contained in the Code of Federal Regulations (CFR), including the Federal Acquisition Regulation that may be applicable in compliance audits in which the Compliance Supplement is not applicable.

We suggest that it be clarified that the standard is not applicable to government contracting for contracts for goods and services

The standard does not address reporting instances in which the auditor shares the responsibility with another auditor on a single program. A common example occurs in a NASA grant in which one CPA firm audits and reports on some of the 14 compliance requirements and another CPA firm reports on some of the other Defense Contract Audit Agency (DCAA) audit compliance requirements.

Re-issuance should include parameters for re-issuance in which the Schedule of Expenditures from Federal Awards is materially incorrect but does not require additional programs to be audited.

The standard should reference the COSO framework as the basis for understanding, documenting, and testing design and operating effectiveness of internal controls.

The standard should describe any additional reporting requirements on abuse and the effect on planning when acquiring an understanding of the entity

The applicability and scope of the standard should be substantially modified (pages 8 and 9, paragraphs 1-6). As presented in the draft, the applicability and scope is confusing. Because the focus of generally accepted auditing standards is the audit of financial statements, the Statement on Auditing Standards should relate to compliance audits performed in conjunction with an audit of the financial statements. When compliance assurance is being provided apart from the performance of a financial statement audit, the work should be performed in accordance with the Attestation Standards.

The standard should provide that compliance audits of government programs, funds, activities, grants, or contracts and compliance with laws, rules, regulations, and the provisions of grant agreements and contracts when performed in conjunction with a financial statement audit should be performed in accordance with government auditing standards in addition to generally accepted auditing standards.

### **Comments on Specific Paragraphs**

Page 8, paragraph 2: Compliance with requirements that could materially affect financial statement amounts is a primary objective of a financial statement audit.

Page 9, paragraph 8: More emphasis needs to be placed in the standard regarding management's responsibilities for compliance and maintaining controls over compliance. This might be accomplished by obtaining a statement of responsibility from management and those charged with governance similar to the example provided in the USDA Loan Audit Guide included in the GAQC Resources Tab.

Page 9, paragraph 10: This section should include a statement that the objectives of the auditor in performing a compliance audit must not include providing "negative assurance" (e.g., "nothing came to our attention to indicate that the entity was not in compliance").

Page 10 – The definition of "Compliance Audit" might also include audits of projects, grants, or contracts.

Page 10 – The first sentence of the definition of "Government Program" should include a phrase such as "through the use of government funds, property, loans, insurance, or other guarantees."

Page 11, paragraph 12: "Exhibit A" is too specific and restrictive. As with other standards, the auditor should be able to use professional judgment in deciding if deviations from the standards are appropriate, as long as the rationale for such deviations are supported in the audit documentation.

Page 12, paragraph 20: The second bullet point is backwards. Substantive audit procedures should, by definition, always provide a higher level of evidence than tests of controls and control testing is not a substitute for performing substantive procedures. Please consider restating these points appropriately.

Page 13, paragraph 22: The auditor should consult with the government agency responsible for establishing audit guidance or which provides the funding to confirm the applicability of outdated or conflicting guidance.

Page 14, paragraph 29: Should also refer to Government Auditing Standards (e.g., direct reporting provisions).

Page 15, paragraph 30k: The auditor's report should also state the level of materiality in the report disclosures (e.g., based on A-133 guidance).

Page 15, paragraph 30(n)(1): Add the phrase "subject to oversight" by the regulatory agency.

Page 15, paragraph 31: The auditor should not be required to report on its consideration of controls over compliance if not relied upon. There might be cases in which it is not economical or inefficient to consider controls over compliance and this exception should be permitted based on auditor judgment and documentation.

Page 16, paragraph 33: Include reference to paragraph 32.

Page 16 - Additional Paragraph inserted between 35 and 36: The auditor should comply with the direct reporting requirements in Government Auditing Standards.

Page 17, paragraph A2: This clause should be used in discussion of Exhibit A in paragraph 12.

Page 18, paragraph A8: Should include a clause to the effect that the auditor should not take on an engagement if he or she does not have staff assigned or has not engaged external specialists with an understanding of the applicable compliance requirements and experience with the application of those requirements.

Page 19, paragraph A8: Add a sentence to include fulfillment of all continuing professional education (CPE) requirements by all audit team members.

Page 19, paragraph A9: Should be part of paragraph A8.

Page 20 – Assessing the Risk of Material Noncompliance: Should include a discussion of the consideration of the likelihood and impact of specific non-compliance.

Page 20, paragraph A16: We do not believe this section fits. Analytical procedures, in many cases, can be a significant indicator of compliance or non-compliance in a compliance audit and provide evidence in a financial statement audit.