

2208 Mount Vernon Ave.
Alexandria, VA 22301-1314

PH 703.684.6931
TF 800.AGA.7211
FX 703.548.9367

www.agacgfm.org

May 12, 2003

Via Internet to Julie Anne Dilley at jdilley@aicpa.org

Ms Julie Anne Dilley
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Dear Ms Dilley:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the AICPA Auditing Standards Board's (Board's) Proposed Statement on Auditing Standards (SAS), *Communication of Internal Control Related Matters Noted in an Audit*. The proposed SAS supersedes SAS No. 60, *Communication of Internal Control Related Matters Noted in an Audit*, and was issued to update the requirements and guidance for reporting internal control deficiencies to audit committees.

The FMSB, comprised of 21 members with accounting and auditing backgrounds in federal, state, and local government, academia, and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

The FMSB is supportive of the overall guidance but has several suggestions that we believe would clarify and improve the guidance.

Paragraph 13

The guidance could be improved by clarifying what is meant by the latter part of 13.a. which reads "...more than the gross financial statement amounts or transactions that are **exposed** to the significant deficiency" (emphasis added). The meaning of the word "exposed" in this context is unclear. If the intended meaning of "exposed" is transactions that might be effected by or subject to the significant deficiency in internal control, we recommend use of another term rather than "exposed". An example would be helpful. Also, in 13.b. the term "gross exposure" should be defined or an example provided to ensure that the intended meaning is properly conveyed.



Paragraph 19

This paragraph includes a provision restricting the communication solely for the information and use of the audit committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties. It then provides that “When there are requirements established by governmental authorities to furnish such reports, specific reference to such regulatory authorities **may** be made” (emphasis added). We recommend that the word “should” be used instead of the more permissive term “may”. This requirement will clarify that when the engagement is performed to satisfy certain governmental regulations, reference to those governmental entities should be included in the restrictive clause.

Paragraph 22

This paragraph provides that “The auditor **may** wish to include the following sentence when material weaknesses are reported:” (emphasis added). We recommend that the word “should” be used instead of the more permissive term “may”.

Paragraph 23

This paragraph provides an illustration of a written report that **may** be used (emphasis added). We recommend that the word “should” be used instead of the more permissive term “may”.

Paragraph 24

This paragraph provides that “Because of the potential for misinterpretation of the limited degree of assurance associated with the auditor issuing a written report representing that no significant deficiencies were noted during an audit, the auditor should not issue such **written** representations” (emphasis added). It would seem logical to also prohibit **oral** representations of this nature. Therefore, we recommend that the phrase “issuing a written report” and the word “written” be deleted so that the revised sentence reads “Because of the potential for misinterpretation of the limited degree of assurance associated with the auditor representing that no significant deficiencies were noted during an audit, the auditor should not issue such representations”.

The FMSB appreciates the opportunity to provide comments on the Exposure Draft. Should you have any questions, or desire further details on the FMSB's position, please contact me at Sharon.Russell@Examiners.state.al.us or (334) 242-9224 or the AICPA facilitator for this project, Dianne McKay at (615) 741-9743 or dianne.mckay@state.tn.us.

Sincerely,

A handwritten signature in cursive script that reads "Sharon R. Russell".

Sharon R. Russell, CPA, CGFM, Chair
AGA Financial Management Standards Board

Cc: William J. Anderson, Jr., CGFM
AGA National President