



May 13, 2005

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Dear Ms. Boothe:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the exposure draft (ED) of the proposed AICPA Statement on Auditing Standards titled *Audit Documentation*. The FMSB, comprising 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 has reviewed the ED. We would like to state that we approve of the overall clarity that paragraphs 18-21 bring to the issue of audit documentation in specific instances. We do, however, have several specific comments:

1. Applicability

The Summary, page 5, 2<sup>nd</sup> paragraph, 2<sup>nd</sup> sentence, indicates that the proposed Standard is applicable to audit documentation of “nonissuers.” The Statement itself does not appear to include this limitation. Also, the term “nonissuer,” should be defined. We suggest that it be defined when it is used for the first time in the document. We recommend the use of the same definition as given in the proposed statement, *Defining Professional Requirements in Statements on Auditing Standards and on Statements on Standards for Attestation Engagements*. A nonissuer refers to any entity not subject to the Sarbanes-Oxley Act of 2002 or Securities and Exchange Commission rules.

2. File Retention Period – Item 7, Summary (page 6) and Paragraph 31 (page 12)

We recommend that the provisions regarding the required retention period for audit documentation be clarified. The summary section in Item No. 7 states that the proposed standard “*Specifies a minimum file retention period that is ordinarily not expected to be shorter than five years from the date of the auditor’s report, recognizing that state statutes or other regulatory requirements may specify a longer retention period.*” Then, Paragraph 31 contained in the body of the standard, states “*The auditor should adopt reasonable procedures to retain audit documentation for a period of time sufficient to meet the needs of his or her practice and to satisfy any applicable legal or regulatory requirements for records retention. Such retention period, however, is ordinarily not expected to be shorter than five years from the date of the auditor’s report.*” It references a footnote stating “Statutes, regulations, or the audit firm’s quality control policies may specify a retention period.”



The statement in the summary makes it clear that the five-year is the minimum time period. However, the actual language in the body of the statement contained in Paragraph 31 and the related footnote is not as clear. We recommend that if the intent is that the five-year is the minimum retention period that Paragraph 31 be revised to clearly state so. This is particularly important in view of the fact that section .515 of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a minimum retention period of three years (from date of issuance to auditee). The last sentence of Paragraph 31 might be revised in a manner similar to the following: “The retention period should be five years from the date of the auditor’s report or such other retention period specified by applicable statutes or regulations whichever is longer.” This wording in the body of the statement would make it clear that the five-year retention period is intended to be the minimum.

### 3. Revisions to Audit Documentation After the Date of the Auditor’s Report

The FMSB considers that the dating of the report upon accumulation of sufficient audit evidence to support an opinion on the financial statements provides a more realistic dating mechanism and correlates to practice. We consider the provision as administratively necessary and appropriate and request the Board to not reduce this deadline below the 60-day mark. However, we do have the following suggestions to improve the proposed statement.

a. Additional guidance on the provisions of Paragraph 22, page 11 regarding dating of the auditor’s report would be helpful. While recognizing that auditors should be allowed to exercise professional judgment in determining what constitutes “sufficient competent audit evidence”, it might be useful to provide some additional guidance in order to promote consistency in the dating of the auditor’s report. For example, if the auditor has completed his/her fieldwork and obtained all of the necessary supporting audit evidence and documentation except for the management representation letter, should he/she wait to date the auditor’s report until after the management representation letter has been received? Some practitioners may consider that the auditor’s report should be dated after the date of receipt of the management representation letter. Others might disagree with that assumption. Yet others may believe that as long as the date of the auditor’s report is after the date of the management representation letter, regardless of the date received, it would be appropriate. We realize the purpose of standards is not to provide specific guidance covering every circumstance. However, providing an example, such as one involving the management representation letter, might help clarify the standard’s intent and reduce the potential for inconsistency among auditors in dating their report.

b. Paragraphs 23 and 29 allow for changes to the workpapers for 60 days after the delivery of the audit report. The requirement to “assemble the audit documentation to form the final engagement file within 60 days following the delivery of the auditor’s report to the entity” may be hard to accomplish on federal audit engagements. Usually, independent public accounting firms (IPAs) are contractually bound to address comments from the entity’s Office of Inspector General (OIG). Oftentimes the OIG review and revisions to workpapers are not completed within the proposed 60 day window. The proposed requirement to “not delete or discard existing audit documentation and appropriately document any subsequent additions or deletions” may increase the cost of audit engagements, especially if applied to addressing minor OIG comments after the 60 day window. We suggest that even 60 days may in some cases not be long enough. We suggest that all changes made to the audit documentation after delivery of the audit report be subject to something similar to the requirements of paragraphs 28 and 30. A requirement could be included that a log be kept of all changes/additions etc to the workpapers after report delivery and that nothing be discarded or deleted after the report delivery date. Workpapers could be moved to a superceded section but not discarded.

c. We also request that the Board consider adding clarification regarding documentation that would be referenced over several consecutive audits (e.g. a permanent file) yet not technically added to each year's individual audit file. Guidance as to when it is appropriate to delete information of this nature (upon obsolescence per paragraph 24 or must it be retained for an additional five years per paragraph 31) and whether or not this information meets the definition of audit documentation in paragraph 6 would be beneficial.

#### 4. Integrity and Confidentiality of Audit Documentation

a. Paragraph 5, page 7, and Paragraph 31, footnote 5, page 12 refer to electronic workpapers. If there exist standards to ensure that such electronic records are properly protected (from hackers) and protected from loss, those standards could be specifically referenced.

b. Paragraph 32, page 12 - There appears to be a minor wording and punctuation problem with the first sentence. As written, it appears some wording or phrase, probably "obligation," has been omitted. We suggest that it should read "The auditor has an ethical **obligation**, and in some situations, specific laws and regulations may impose a legal obligation, to maintain the confidentiality of client information."

#### 5. Introduction, page 7

a. Regarding the discussion of the purpose of the proposed statement in paragraph 1, is it the intent of the Auditing Standards Board for these requirements to extend the audit of internal control over financial reporting for nonissuers (that is, federal agencies opting for an audit of internal control under Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, Appendix A)?

b. Paragraph 7 should follow paragraph 3, since they relate to the same subject.

c. In paragraph 8, the characteristics of an "experienced auditor" should include having an understanding of the business and the business practices of the entity being audited, as well as of audit processes and of auditing and reporting issues relevant to the industry in which the entity operates. The phrase "of the business and the business practices" should be added after "understanding."

#### 6. Form, Content and Extent of Audit Documentation, pages 8-10

a. Paragraph 9, section c – We think that the experienced auditor should understand the **basis of the opinion**. Perhaps that is what is meant by the conclusions reached on significant matters, but it is not sufficiently clear as written.

b. Paragraph 9, section d – We suggest that this be rewritten as follows: "That all significant risks of material misstatement identified during the course of the audit have been addressed and concluded upon as evidenced by :1) documentation of the procedures performed; 2) audit evidence obtained; or 3) other audit documentation (e.g. summary memorandum)."

c. Paragraph 12, page 9 can be better written, since one could conclude that the "certain matters" do not have to be documented, only that they "may be" documented in one of two places. We suggest alternative wording, such as "Certain matters, such as auditor independence, staff training, and other matters must be documented in either...."

d. Paragraph 12 should specifically refer to the “experience of the audit team” as a matter to be documented.

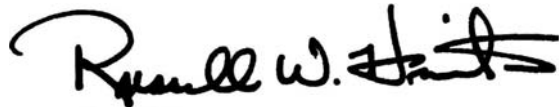
e. Paragraph 19, page 10 – In the introductory paragraph, it would read better if “of tested items” were added, to read: “Recording the identifying characteristics **of tested items** serves a number of ....”

f. Paragraph 19, last bullet – The phrase “need only” has a negative connotation, suggesting that the auditor may be hiding something. The phrase “the documentation need only provide...” could be reworded to say, “the documentation must (or should) provide...” which has a positive connotation.

g. Paragraph 20, first sentence – “The auditor need only retain copies ..if..” would read better if it were revised to read “The auditor must retain copies...of..” Again this has a positive connotation, in contrast to the negative connotation of “need only.”

The FMSB appreciates the opportunity to comment on the exposure draft. No members objected to its issuance. This response letter represents a consensus of the views of the FMSB members. We would be pleased to discuss this letter with you at your convenience. You can contact me at [hintonrw@audits.state.ga.us](mailto:hintonrw@audits.state.ga.us) or (404) 656-2174 or Anna D. Gowans Miller, CPA, AGA’s Technical Manager and facilitator for this project, at [amiller@agacgfm.org](mailto:amiller@agacgfm.org) or (703) 684-6931, ext. 313.

Sincerely,

A handwritten signature in black ink that reads "Russell W. Hinton". The signature is stylized with a large, sweeping initial "R" and a long, horizontal flourish at the end.

Russell W. Hinton, CGFM, Chair,  
AGA Financial Management Standards Board

cc. Bobby A. Derrick, CGFM  
AGA National President

**Association of Government Accountants  
Financial Management Standards Board**

**July 2004 – June 2005**

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