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.

For additional information or for questions related to this guidance, please contact

- Michael C. Hrapsky at (202) 512-9535
- Marcia B. Buchanan at (202) 512-9321
- Paula M. Rascona at (202) 512-9816

December 2007