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United States Government Accountability Office
Washington, DC 20548

August 31, 2009

Ms. Sharon 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) June 2009 Exposure Draft of Proposed Statement on Auditing Standards (SAS) entitled *Quality Control for an Audit of Financial Statements*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the ASB's proposed SAS on quality control. We commend the ASB for taking on this project to define the requirements for quality control for the audit team. Overall, we support the proposed statement and believe that the revised SAS adds much-needed guidance in this area of practice.

Our comments and suggestions for improving the standard are noted below.

Comments on Engagement Quality Control Review

In its request for comments on the proposed SAS and the related Statement on Quality Control Standards (SQCS) *A Firm's System of Quality Control (redrafted)*, the ASB has requested comment on whether additional requirements relating to engagement quality control review should be included in the proposed standard, specifically additional requirements relating to engagement quality control review from Public Company Accounting Oversight Board (PCAOB) *Auditing Standard No. 7– Engagement Quality Review*.

We do not support adding requirements from the PCAOB standard to the proposed SAS or SQCS except as noted below in our response to question 2. PCAOB's AS No. 7 contains specific requirements and processes for an engagement quality review that may be appropriate for audits of issuers. The proposed SAS provides an appropriate level of flexibility for audits of non-issuers.

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

Our comments on changes resulting from applying the clarity drafting conventions and from converging with the ISA along with other suggestions for improving the proposed standard are detailed below.

(1) We believe that the objectives to be achieved by the auditor as stated in the proposed SAS are appropriate.

(2) We agree with the revisions made to the existing standard to converge with the ISA 220 except for the following:

- Some procedures are so fundamental to audit quality that a reviewer could not satisfy the objectives of an engagement quality control review without considering them. The procedures listed in paragraphs A28 and A29 of the proposed SAS, which also are included in AS No. 7, paragraphs 10 and 11, are essential to achieving the objectives of an engagement quality control review and should be elevated to be requirements in paragraph 20 of the proposed SAS.
- If, however, the ASB decides it is not appropriate to require these procedures, then paragraphs A28 and A29 should be revised as follows to better describe the requirements in paragraph 20.

A28. As discussed in paragraph 20, matters relevant to evaluating the significant judgments made by the engagement team ~~that may be considered in an engagement quality control review~~ include the following:

- Significant risks identified during the engagement in accordance with proposed SAS *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* and the responses to those risks in accordance with proposed SAS *Performing Audit Procedures in Response to Assessed Risk*, including the engagement team's assessment of, and response to, the risk of fraud in accordance with proposed SAS *Consideration of Fraud in a Financial Statement Audit*
- Judgments made, particularly with respect to materiality and significant risks
- The significance and disposition of corrected and uncorrected misstatements identified during the audit
- The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies

A29. In satisfying the requirements of paragraph 20, other important considerations ~~the engagement quality control reviewer may also consider include~~ the following:

- The engagement team's evaluation of the firm's independence in relation to the audit engagement
- Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters, and the conclusions arising from those consultations
- Whether audit documentation selected for review indicates that the audit team responded appropriately to significant risks and supports the conclusions reached

(3) We agree with the differences between the proposed SAS and ISA 220.

(4) We agree with the governmental considerations included in the proposed standard, and offer the following suggestions for improving them:

- This SAS applies to audits of government entities whether performed by firms or government audit organizations. Most government audit organizations would not be considered a firm under the definition in paragraph 7 of this SAS. Consequently, the AICPA proposed SQCS *A Firm's System of Quality Control* would not apply to these government audit organizations while this proposed SAS on quality control would apply. To alert auditors of the applicability of these standards, we suggest adding the following paragraph to precede paragraph A1 of the proposed SAS.

Considerations Specific to Government Entities (Ref: par. 1)

[New paragraph to precede paragraph A1.] This proposed SAS addresses the specific responsibilities of the auditor regarding quality control procedures for a financial statement audit. *Government Auditing Standards* (GAGAS) incorporate AICPA Statements on Auditing Standards (SAS) unless specifically excluded or modified by GAGAS. Accordingly, this SAS applies to auditors in government audit organizations who perform financial audits under GAGAS. The proposed statement on quality control standard (SQCS) *A Firm's System of Quality Control* (Redrafted), however, does not apply to government audit organizations that perform audits in accordance with GAGAS; instead, those government audit organizations would be subject to the quality control and assurance standard in Chapter 3 of GAGAS, July 2007 Revision, which has requirements similar to those in the SQCS.

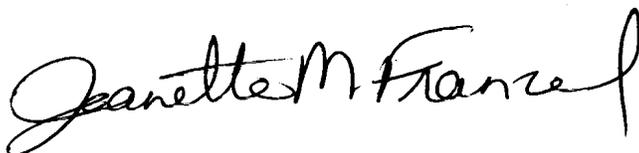
- Paragraph A12 of the proposed standard provides guidance on the additional competencies needed to perform a quality audit of government entities. To more accurately and thoroughly describe the necessary competencies for performing audits of government entities, we suggest revising paragraph A12 in the proposed SAS, as follows:

A12. For audits of governmental entities, additional appropriate competence ~~may include~~ skills that are necessary to discharge the terms of the audit mandate of comply with applicable a particular laws and or regulations.

Such competence ~~may include~~ knowledge of *Government Auditing Standards* GAGAS and an understanding of the applicable reporting requirements, including reporting to the legislature or other governing body or in the public interest. Under GAGAS, there are ~~The scope of a governmental audit may be broader, including, for example, additional requirements with respect to detecting misstatements that result from reporting deficiencies in internal control, fraud and illegal acts, unless inconsequential, abuse that is material, and~~ violations of provisions of contracts or grant agreements that ~~could have a direct and material effect on the determination of financial statement amounts or the need to test and report on internal control.~~ GAGAS also include additional requirements with respect to (1) designing the audit to provide reasonable assurance of detecting misstatements resulting from violations of provisions of contracts or grant agreements that could have a direct and material effect on the determination of financial statement amounts and (2) the auditors' response to abuse that could be quantitatively or qualitatively material to the financial statements. In addition, GAGAS discusses additional considerations regarding the appropriate materiality levels for GAGAS audits.

We thank you for considering our comments on these important issues as we work together on issues of mutual interest to the accountability profession.

Sincerely yours,

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

Jeanette M. Franzel
Managing Director
Financial Management and Assurance

cc: Mr. Harold Monk, Chair
Auditing Standards Board

Mr. Daniel L. Goelzer, Acting Chairman
Public Company Accounting Oversight Board