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United States Government Accountability Office
Washington, DC 20548

April 5, 2011

Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, New York 10017

Subject: International Auditing and Assurance Standards Board (IAASB) January 2011 consultation paper on *Proposed IAASB Strategy and Work Program for 2012–2014*.

This letter provides the U.S. Government Accountability Office's (GAO) comments on the IAASB's proposed strategy and work program for 2012–2014. We are in general agreement with your proposed priorities. Our more specific comments follow.

We agree with the IAASB's three areas of strategic focus of (1) developing and revising standards, (2) monitoring and facilitating the adoption of those standards, and (3) promoting activities to improve the consistent application of adopted standards. IAASB standard setting and its complementary guidance and coordination activities among the standard setting bodies are vital to the successful implementation of high-quality international auditing and assurance standards. The IAASB's proposed follow-up activities that include consultation with stakeholders, such as national standard setters and regulators, should help IAASB's overall efforts.

We are also in agreement that the IAASB's proposed list of anticipated projects likely to commence in 2012–2014 (Column B, pages 14–17) should cover topics that are consistent with the three areas of strategic focus. These anticipated projects complement the themes covered in Column A regarding implementation of current guidance and outreach to audit stakeholders. The proposed themes in Column B build on the current activities in Column A.

The proposed projects are an ambitious undertaking. Available resources and unanticipated contingencies may preclude covering all of your proposed topics listed in Column B. Accordingly, we suggest that you consider focusing your attention on the following projects in Column B as resources become available:

B.1 Undertake new project(s) to respond to findings of the ISA Implementation Monitoring project, in consultation with the IAASB CAG - output in the form of a revised ISA(s), new ISA, IAPS, or other form, as deemed appropriate.

With the implementation of the IAASB's full set of 36 clarified International Standards on Auditing (ISAs) effective for audits of financial statements for periods beginning on or after December 15, 2009, new questions on the application of the revised and clarified ISAs will no doubt arise. In creating a mechanism to respond to stakeholder concerns, the IAASB could provide for needed revisions and clarifications of current ISAs and related concepts such as audit evidence, professional judgment, professional skepticism, and reasonable assurance. Efforts in this area complement current activities listed in Column A, such as project A.10 regarding clarifying the meaning of an audit and project A.11 regarding outreach activities to overcome barriers to the adoption of ISAs.

B.3 Determine whether to revise or withdraw ISAE 3400, *The Examination of Prospective Financial Information*.

It is important to reaffirm whether the guidance in ISAE 3400 provides relevant information to potential users of such reports. The consultation paper points out that ISAE 3400 has not received widespread acceptance by professionals due to concerns about regulatory acceptance because it does not provide for the opinion that some regulators require, and the related level of assurance required on the underlying assumptions is viewed by some as being too high. For these reasons we think it advisable that this standard be reconsidered after taking into account current regulatory practice and user needs.

B.4 Through the ISA Implementation Monitoring project and other outreach activities take a proactive role in identifying implementation challenges and seek to develop materials aimed at addressing these challenges, working with NSS, IFAC member bodies and others.

The key to gaining widespread acceptance of IAASB pronouncements is to gain an understanding of the needs of auditors and implementation challenges faced by them. Outreach activities that engage stakeholders can be very helpful in determining challenges they face in implementing the standards. Activities—be they, for example, in the form of question-and-answer responses on the IAASB website, regional workshops, or discussion papers—could inform the IAASB on the direction of further clarification of the standards. To that end we endorse the IAASB's efforts in using a variety of venues in reaching out to its constituents.

B.5 Seek feedback from service organizations, service auditors, user entities, user auditors, and others on their experiences with the implementation of ISAE 3402, *Assurance Reports on Controls at a Service Organization*.

As this is the first new assurance statement other than the ISAs being developed under the IAASB's *International Framework for Assurance Engagements*, feedback from auditors on their experiences in implementing this guidance is appropriate. Given the widespread outsourcing of key functions by private and public entities to outside service organizations and the resulting increase in demand for attestation services related to evaluation of service organizations' internal control, the need for guidance has become increasingly apparent. Obtaining feedback from service and user auditors on issues such as evaluating the suitability of criteria, obtaining sufficient appropriate evidence, and evaluating subservice organizations would contribute to a globally accepted framework for assurance reporting on service organizations.

With respect to additional projects listed in Column C (pages 14–17) we believe that the following projects would best complement the IAASB's current efforts to finalize its revision of ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* and its development of ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements* as well as its anticipated effort seeking feedback on the implementation of ISAE 3402, *Assurance Reports on Controls at a Service Organization*. To that end we would suggest that you address the following topics listed in Column C as resources become available:

C.3 Monitor the impact of developments in integrated reporting (linking financial, environmental, social and governance information) and participate, as necessary, in any audit- or assurance-related outcomes.

Auditors are increasingly called on to provide assurance on nonfinancial information. Also, a variety of nonfinancial information is being demanded regarding an organization's retrospective and prospective performance. This combined with the varying needs and expectations of regulatory authorities and investors and the lack of consistency in the presentation of such information can lead to concerns about quality. It is therefore important that the IAASB be a part of the discussion regarding the standardization of integrated reporting and related assurances on financial and nonfinancial information.

C.4 Evaluate whether to develop a new ISAE addressing assurance on sustainability reporting.

We encourage the IAASB to focus on assurance on fiscal sustainability reporting. Such a project would be highly relevant to public sector entities, which, given known demographic trends, are facing increasing

demands for transfer payments to dependent populations. In addition, public sector entities are facing changing economic circumstances that impact funding and revenue sources for public programs.

C.6 Evaluate whether to develop a new ISAE addressing assurance on internal control.

A project on assurances on internal control would complement work currently being done to meet increasing demand for assurance statements of service organization controls and corporate governance statements. As several countries, including the United States, have adopted requirements for auditors to report on internal control, the IAASB could build on these countries' experiences in deciding how and to what extent additional guidance on evaluating internal control would be useful to the international audit community.

Setting priorities in the face of limited resources is important for any standard setting body. We applaud the IAASB's efforts in developing a set of clarified auditing standards. We also appreciate the IAASB's willingness to tackle emerging issues such as the evaluation of nonhistorical financial information, sustainability reporting, and the consideration of related internal control. Responding to these and other issues will require continued engagement with stakeholders. It is through publication of its proposed work plan that this is accomplished.

We thank you in advance for considering our comments.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'James R. Dalkin', with a stylized flourish at the end.

James R. Dalkin
Director
Financial Management and Assurance