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United States Government Accountability Office
Washington, DC 20548

May 3, 2010

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Subject: AICPA Auditing Standards Board (ASB) December 2009 Exposure Draft for a proposed Statement on Auditing Standards (SAS), entitled “*Analytical Procedures* (Redrafted).”

This letter provides the U.S. Government Accountability Office’s (GAO) comments on the ASB’s proposed SAS on analytical procedures. Overall we agree with and support the proposed SAS.

Our comments on changes resulting from applying the clarity drafting conventions and from converging with the International Standard on Auditing (ISA) No. 520 are detailed below.

(1) We believe that the objectives to be achieved by the auditor as stated in the proposed SAS are appropriate, including the ASB’s revisions to paragraph 3b in ISA 520 to state that the auditor’s objective is “to design and perform analytical procedures near the end of the audit that are intended to corroborate audit evidence obtained during the audit of the financial statements to assist the auditor in drawing reasonable conclusions on which to base the auditor’s opinion.” [Underlining added for emphasis.] This wording more appropriately describes the purpose of these types of analytical procedures and supports the requirement in paragraph 6 to perform analytical procedures that assist when forming an overall conclusion.

(2) We agree with the revisions made to the existing standard to converge with ISA No. 520.

(3) We agree with the differences between the proposed SAS and ISA No. 520. In particular we concur with the additional documentation requirements in paragraph 8. These documentation requirements, from extant AU section 329, contribute to the quality of analytical procedures and should be retained in the proposed SAS.

(4) We agree that the considerations for audits of governmental entities included in the proposed standard are appropriate. However, the considerations discussed in paragraph A15 could be improved by noting that the relationship between a government entity's budget and individual financial statement items may be a more relevant example in audits of government entities. Accordingly, we suggest adding the following wording to paragraph A15:

Considerations Specific to Governmental Entities

A15. The relationships between individual financial statement items traditionally considered in the audit of business entities may not always be relevant in the audit of governmental entities; for example, in many governmental entities there may be little direct relationship between revenue and expenditure. In addition, because expenditure on the acquisition of assets may not be capitalized, there may be no relationship between expenditures on, for example, inventories and fixed assets and the amount of those assets reported in the financial statements. On the other hand, government entities' budgets are an important analytical tool and may be used as a bench mark for evaluating individual financial statements.

(5) Other Comments

The last sentence in paragraph A21 states that the auditor "may consider the reliability of information," suggesting that evaluating data reliability is an optional procedure. This sentence appears inconsistent with the requirement in paragraph 5b, which states that "the auditor should evaluate the reliability of the data..." To help avoid any misunderstanding and remove the appearance of inconsistency, we suggest revising paragraph A21 as follows:

Availability of Data

A21. Data may or may not be readily available to develop expectations for some assertions. For example, the auditor may consider whether financial information, such as budgets or forecasts, and nonfinancial information, such as number of units produced or sold, is available to design substantive analytical procedures. If the information is available, the auditor may find the information discussed in paragraphs A16 – A19 helpful.

We thank you for considering our comments on these important issues.

Sincerely yours,



James R. Dalkin
Director
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