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Comptroller General  
of the United States

United States Government Accountability Office  
Washington, DC 20548

June 15, 2007

Mr. Harold Monk, Chair  
Auditing Standards Board  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, NY 10036-8775

Subject: *Discussion Paper: Improving the Clarity of ASB Standards*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Auditing Standards Board's (ASB) March 20, 2007, discussion paper on Improving the Clarity of ASB Standards.

We support the objectives of the ASB's clarity project, particularly the goals of

- harmonizing U.S. generally accepted auditing standards with the International Standards on Auditing (ISAs) while also avoiding the creation of unnecessary differences with Public Company Accounting Oversight Board (PCAOB) standards, and
- developing standards that are understandable, clear, and capable of being consistently applied.

In addition, we strongly support including in the Statements on Auditing Standards (SASs) special considerations for the audits of public sector entities and we would be pleased to work with the ASB on this endeavor.

Our comments addressing specific issues in the discussion paper are detailed in the enclosure to this letter.

We thank you for considering our comments on this important issue.

Sincerely yours,

David M. Walker  
Comptroller General  
of the United States

Enclosure

cc:

The Honorable Christopher Cox, Chairman  
Securities and Exchange Commission

The Honorable Mark W. Olson, Chairman  
Public Company Accounting Oversight Board

Mr. John Kellas, Chairman  
International Auditing and Assurance Standards Board

**Questions set forth in ASB Discussion Paper on Improving Clarity of ASB Standards****1. Do you agree that the use of objectives, as proposed, will enhance the clarity of standards and how professional judgment should be exercised in applying them?**

We agree with the purpose of including objectives in the standards as stated on page 7 of the discussion paper, which is to provide auditors with a “framework of sound principles and requirements within which to exercise professional judgment in achieving the overall objective of the audit.” We note, however, that the description of objectives on page 8 of the discussion paper and the objectives proposed in the redrafted SAS 114 in appendixes 1 and 2 of the discussion paper use the word “must” to describe objectives, which, in our opinion, confuses the concept of objectives with that of unconditional requirements.

We strongly recommend that the ASB adopt the definition of objectives in paragraph 15 of the International Auditing and Assurance Standards Board (IAASB) *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*, approved December 2006 (the Preface), which states that “Each ISA contains an objective or objectives, which provide the context in which the requirements of the ISA are set. The auditor aims to achieve these objectives, having regard to the interrelationships amongst the ISAs. For this purpose, the auditor uses the objectives to judge whether, having complied with the requirements of the ISAs, sufficient appropriate audit evidence has been obtained in the context of the overall objective of the auditor. Where an individual objective has not been or cannot be achieved, the auditor considers whether this prevents the auditor from achieving the auditor’s overall objective.”

The ASB standards also should adopt objectives similar to those in the four redrafted ISAs included in pages 981-1108 of the *Handbook of International Auditing, Assurance, and Ethics Pronouncements*, 2007 Edition. The objectives in the four redrafted ISAs represent high-level goals to guide auditors in fulfilling the requirements in the standards. Using objectives that are similar to those in the ISAs will better harmonize U.S. and international standards.

We also recommend listing the unconditional requirements (must statements) in a separate section at the front of each standard, which would prominently highlight them. This separate section could immediately follow the objectives, be appropriately labeled “Unconditional Requirements,” and begin with wording similar to the wording in paragraph 4 of SAS 102, which states that “The auditor is required to comply with an unconditional requirement in all cases in which the circumstances exist to which the unconditional requirement applies.” Although including a separate section on unconditional requirements would differ from the format used in the ISAs, it would be appropriate since the ISAs do not have unconditional requirements. Accordingly, it would provide a useful way to incorporate the ASB’s unconditional requirements into the ISA format.

**2. Which presentation do you believe will help you better understand and implement the standard?**

The most effective presentation is Appendix 1, in which formatting and terminology clearly identify the requirements and each requirement is immediately followed by related explanatory material. This format clearly distinguishes the requirements from the guidance while keeping them together, thus providing context for the guidance and increasing the likelihood that auditors will consider the entire text of a SAS in applying the professional requirements. It also provides better linkage between requirements and related explanatory material, making the material easier to read and understand. Introducing any new terms at the beginning of each SAS in a separate definition section will help educate users and make it easier for auditors to locate these new terms.

**3. Will inclusion of these special considerations [specific to public sector entities and to smaller entities] throughout the SASs be helpful?**

Yes. We fully support including special considerations for public sector entities and small entities at appropriate points throughout each SAS, and as stated in our accompanying letter, we will be happy to work with the ASB in developing special considerations for public sector entities. Such special considerations will help educate auditors about the unique environments and concerns found in these entities. For example, an important consideration for public sector entities related to SAS 114 involves those charged with governance. In government entities it may be unclear who is charged with governance functions. *Government Auditing Standards, 2007 Revision*, includes guidance to assist auditors in evaluating who oversees the strategic direction and obligations related to the accountability of the audited entity. Including this type of guidance in the SAS would help educate auditors about important issues in audits of government entities and entities that receive government funding and may reduce the need for GAO to provide this type of supplementary guidance in *Government Auditing Standards*.

**4. Will inclusion of a glossary of terms in the Codification of the Statements on Auditing Standards be helpful?**

Yes. A glossary of terms will facilitate development of standards that are understandable, clear, and capable of being consistently applied. The glossary of terms included in the International Federation of Accountants' (IFAC) *Handbook of International Auditing, Assurance, and Ethics Pronouncements* is helpful and easy to use. We encourage the ASB to adopt a format similar to the one used by IFAC.