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United States Government Accountability Office
Washington, DC 20548

January 15, 2010

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Audit and Attest Standards
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Subject: AICPA Auditing Standards Board (ASB) October 2009 Exposure Draft of proposed Statements on Auditing Standards (SAS) *Terms of Engagement* and *Written Representations*.

This letter provides the U.S. Government Accountability Office's (GAO) comments on the ASB's proposed statements on auditing standards. The proposed SASs appropriately address the auditor's responsibilities for reaching agreement on the terms of the audit engagement and obtaining written representations. Our responses to the questions in the Board's Issues for Consideration and Specific Comments are provided in this letter. Editorial suggestions and other comments are included in the attachment to this letter.

Issues for Consideration

The Board asks respondents specifically to consider the following questions:

1. In the circumstances of a recurring audit when the auditor has determined that there is no need to revise the terms of the engagement, which one of the following requirements is the most appropriate:

- a. A requirement that the auditor remind the entity of the existing terms of the engagement each year (as in the proposed SAS), or**
- b. A requirement that the auditor assess whether to remind the entity of the existing terms of the engagement each year (as in ISA 210)**

Since we are not aware of any compelling reasons for diverging from ISA 210, we support the option to require that the auditor assess whether to remind the entity of the existing terms of the engagement each year, as denoted in 1(b).

2. If the proposed SAS should contain a requirement to remind the entity of the existing terms, should the reminder be required to be in writing, with no option for an oral reminder?

If the Board decides to retain the requirement that the auditor remind the entity of the existing terms of the engagement each year, it would be a prudent business practice for the reminder to be in writing.

Responses to Specific Questions

The Board is also seeking comments on the effect of applying the clarity drafting conventions to the proposed standards and converging them with the International Standards on Auditing. We provide the requested comments below.

1. Are the auditor's objectives appropriate?

We believe that the objectives to be achieved by the auditor, as stated in the proposed SASs, are generally appropriate.

2. Are the revisions made to converge AU section 333 with ISA 580 appropriate?

Except for changes noted in the attachment to this letter, we agree with the revisions made to the existing standard to converge with the ISA.

3. Are the differences between the proposed SAS and ISAs upon which they are based, as identified in the exhibit and other language changes, appropriate?

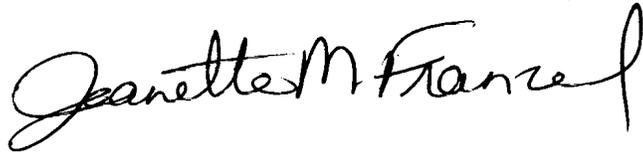
We agree with the differences between the proposed SAS and the ISA, except for the provisions in paragraph A10 of the proposed SAS *Terms of Engagement* which concern the auditor assisting in drafting an entity's financial statements. This issue is related to professional ethics and can be confusing when taken out of context and placed in an auditing standard. Accordingly, we urge the Board to remove this paragraph from the proposed SAS.

4. Have considerations for audits of smaller, less complex entities and governmental entities been dealt with appropriately?

Yes, these considerations are generally appropriate as written. Editorial changes to selected paragraphs to enhance clarity, ease of application, and use terms or phrases more common in the U.S. are noted in the attachment to this letter.

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

Sincerely yours,

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

Jeanette Franzel
Managing Director
Financial Management and Assurance

Attachment

GAO Suggested Editorial and Other Changes to Proposed SASs:
“Terms of Engagement” and *“Written Representations”*

Suggested Editorial and Other Changes	Reasoning for Suggested Changes
<i>Terms of Engagement</i>	
<p>Introduction Scope of This Proposed Statement on Auditing Standards</p> <p>1. This proposed Statement on Auditing Standards (SAS) addresses the auditor’s responsibilities in agreeing to reach agreement on the terms of the audit engagement with management and, when appropriate, those charged with governance. This includes establishing that certain preconditions for an audit, for which management and, when appropriate, those charged with governance are responsible, are present. The proposed SAS <i>Quality Control for an Audit of Financial Statements</i> addresses those aspects of engagement acceptance that are within the control of the auditor. (Ref: par. A1)</p>	<p>Proposed change in the scope paragraph for clarity of presentation and to use terms or phrases that are more common in the U.S.</p>
<p>Requirements Preconditions for an Audit</p> <p>6. In order to establish whether the preconditions for an audit are present, the auditor should</p> <ul style="list-style-type: none"> a. determine whether the financial reporting framework to be applied in the preparation of the financial statements is acceptable and (Ref: par. A2–A9) b. obtain the agreement of management that it acknowledges and understands its responsibility (Ref: par. A10–A13 and A18) <ul style="list-style-type: none"> i. for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework; (Ref: par. A14–A15) ii. for the design, implementation, and maintenance of internal control relevant to the preparation and fair 	<p>Proposed change to better align this requirement with (1) paragraph 14 of the proposed SAS <i>“Written Representations”</i>, and (2) the proposed redrafted standard <i>“Consideration of Laws and Regulations in an Audit of Financial Statements.”</i></p>

Suggested Editorial and Other Changes	Reasoning for Suggested Changes
<p>presentation of financial statements that are free from material misstatement, whether due to fraud or error (Ref: par. A16–A17); and</p> <p><u>iii. for complying with applicable laws and regulations that have a direct and material effect on the financial statements.</u></p> <p><u>iv. to provide the auditor with</u></p> <p>(1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters;</p> <p>(2) additional information that the auditor may request from management for the purpose of the audit; and</p> <p>(3) unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence.</p>	
<p>19. If the auditor is unable to agree to a change of the terms of the audit engagement and is not permitted by management to continue the original audit engagement, auditor should</p> <p><i>a.</i> withdraw from the audit engagement, <u>unless withdrawal from the engagement is not permitted under applicable law or regulation,</u> and</p> <p><i>b.</i> determine whether any obligation, either legal, contractual, or otherwise, exists to report the circumstances to other parties, such as those charged with governance, owners, or regulators.</p>	<p>Proposed change to recognize that government auditors may be precluded by law or regulation from withdrawing from an audit.</p>

Suggested Editorial and Other Changes	Reasoning for Suggested Changes
<p>Recurring Audits (Ref: par. 11)</p> <p>A26. The following factors may make it appropriate to revise the terms of the audit engagement <u>or to remind the entity of existing terms</u>:</p> <ul style="list-style-type: none"> • Any indication that the entity misunderstands the objective and scope of the audit • Any revised or special terms of the audit engagement • A change of senior management • A significant change in ownership • A significant change in the nature or size of the entity’s business • A change in legal or regulatory requirements • A change in the financial reporting framework adopted in the preparation of the financial statements • A change in other reporting requirements 	<p>This proposed change would converge with paragraph A28 of ISA 210 which requires that the auditor assess whether to remind the entity of the terms of the engagement.</p>
<p>Considerations Specific to Governmental Entities</p> <p>A32. When the auditor is mandated required by law or regulation to audit a governmental entity, <u>it may not be relevant to make inquiries to of the predecessor auditor for the purpose of obtaining information about whether to accept the engagement may not be relevant</u>. However, <u>such inquiries to of the predecessor auditor may still be relevant for the purpose of obtaining information that is used by the auditor in provide useful information for planning and performing the audit.</u></p>	<p>Proposed change uses terms or phrases more common in the U.S.</p>
<p>Considerations Specific to Governmental Entities</p> <p>A39. For governmental entities, specific <u>legal or regulatory requirements</u> may exist within the legislation governing the audit mandate; for example, the auditor may be required to report directly to the legislature or the public if the entity attempts to limit the scope of the audit.</p>	<p>Proposed change uses terms or phrases more common in the U.S</p>

Suggested Editorial and Other Changes	Reasoning for Suggested Changes
<i>Written Representations</i>	
<p><i>Information Provided and Completeness of Transactions</i></p> <p>11. The auditor should request management to provide written representations that</p> <ul style="list-style-type: none"> a. it has provided the auditor with all relevant information and access, as agreed upon in the terms of the audit engagement, and b. all transactions have been recorded and are reflected in the financial statements <u>as required by the applicable financial reporting framework.</u> (Ref: par. A7–A10, A22, and A29) 	<p>Proposed change to recognize that the applicable financial reporting framework determines the transactions that are recorded and reported in the financial statements.</p>
<p><i>Requested Written Representations Not Provided</i></p> <p>26. If management does not provide one or more of the requested written representations <u>required by paragraphs 10 through 20 of this standard,</u> the auditor should</p> <ul style="list-style-type: none"> a. discuss the matter with management; b. reevaluate the integrity of management and evaluate the effect this may have on the reliability of representations (oral and written) and audit evidence in general; and c. take appropriate actions, including determining the possible effect on the opinion in the auditor’s report in accordance with the proposed SAS <i>Modifications to the Opinion in the Independent Auditor’s Report,</i> considering the requirement in paragraph 27 of this proposed SAS. 	<p>Proposed change to indicate the representations that are considered essential to the audit.</p>
<p><i>Considerations Specific to Governmental Entities</i></p> <p>A10. “The mandates <u>legal or regulatory requirements</u> for audits of the financial statements of governmental entities may be broader than those of other entities. As a result, the premise, relating to management’s responsibilities, on which an audit of the</p>	<p>Proposed change to use terms or phrases more common in the U.S.</p>

Suggested Editorial and Other Changes	Reasoning for Suggested Changes
<p>financial statements of a governmental entity is conducted may give rise to additional written representations. These may include written representations confirming that transactions and events have been carried out in accordance with <u>applicable laws or regulations</u>. or other authority.</p>	
<p>Exhibit I: Illustrative Representation Letter</p> <p>A35. 7th Bullet</p> <ul style="list-style-type: none"> All transactions have been recorded in the accounting records and are reflected in the financial statements <u>as required by the applicable financial reporting framework</u>. 	<p>Proposed change to recognize that the applicable financial reporting framework determines the transactions that are recorded and reported in the financial statements.</p>