GAO
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United States Government Accountability Office
Washington, DC 20548

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Subject: AICPA Auditing Standards Board (ASB) February 2010 Exposure Draft for a proposed Statement on Auditing Standards (SAS), entitled "*Consistency of Financial Statements*."

This letter provides the U.S. Government Accountability Office's (GAO) comments on the ASB's proposed SAS on consistency of financial statements. Overall we agree with and support the proposed SAS.

Our comments on changes resulting from applying the clarity drafting conventions and other comments are detailed below. The attachment to this letter includes suggested editorial and other changes.

Comments from applying the clarity conventions

(1) We believe that the objectives to be achieved by the auditor as stated in the proposed SAS are appropriate but incomplete, as explained in our comment on aligning the objectives, scope, and requirements of the proposed SAS.

(2) We agree with the revisions made to the existing standard.

(3) Although the SAS does not include considerations for audits of government entities, we agree that the governmental considerations have been dealt with appropriately and we are not aware of any that should be included in the proposed standard.

Other Comments

Removing Framework-Specific Guidance from the Proposed SAS

The proposed SAS has been drafted considering the requirements of PCAOB Auditing Standard No. 6, *Evaluating Consistency of Financial Statements*, with the intent of avoiding unnecessary conflict with PCAOB standards. We agree with this intent but are concerned that certain provisions of Auditing Standard No. 6 incorporated in the proposed SAS are not appropriate because they are framework specific, taken from Statement of Financial Accounting Standards (SFAS) No. 154, *Accounting Changes and Error Corrections* issued by the Financial Accounting Standards Board (FASB). In addition to the FASB however, the AICPA Code of Professional Conduct also recognizes accounting and reporting principles promulgated by the Governmental Accounting Standards Board (GASB), the Federal Accounting Standards Advisory Board (FASAB), and the International Accounting Standards Board (IASB).

Since paragraph A6 and the second sentence of paragraph A4 of the proposed SAS, which are essentially the same as footnote 8 and paragraph 5, respectively, of Auditing Standard No. 6, discuss guidance on changes in accounting principles taken from SFAS 154, we recommend removing them from the proposed SAS. Doing so will not create unnecessary conflict with PCAOB standards, but will make the standard less framework specific and accommodate audits of entities using frameworks other than those of the FASB.

Aligning the Objectives, Scope, and Requirements of the Proposed SAS

The objective, scope and requirements sections of the proposed standard are not aligned, making the standard appear rules-based and narrowly focused on changes in accounting principle and correction of material misstatements in previously issued financial statements. For instance, the requirements section discusses the auditor's responsibility to evaluate consistency and to communicate appropriately in the auditor's report. The objective section, however, discusses only the auditor's communication, while the scope section addresses only the evaluation. To properly align the sections of the proposed SAS, we suggest rewording paragraphs 1 and 3 as follows:

> **Scope of This Proposed Statement on Auditing Standards**
>
> **1**. This proposed Statement on Auditing Standards (SAS) addresses the auditor's **(a)** evaluation of the consistency of the financial statements, including changes to previously issued financial statements and the effect of that evaluation on the auditor's report on the financial statements~~.~~, **and (b) communication in the auditor's report when the auditor determines that the comparability of financial statements between periods has been materially affected by a change in accounting principle or by adjustments to correct a material misstatement in previously issued financial statements.**

Objective

3. The objective of the auditor is to **(a) evaluate the consistency of the financial statements for the periods presented, and (b)** communicate appropriately in the auditor's report when the auditor determines that the comparability of financial statements between periods has been materially affected**.** ~~by a change in accounting principle or by adjustments to correct a material misstatement in previously issued financial statements.~~

We also suggest creating a new subheading in the requirements section of the proposed SAS. This new subheading, which could be named "Communicating when the Comparability of the Financial Statements between Periods has been Materially Affected," would follow paragraph 7 and incorporate paragraphs 8 - 17 along with the respective sub-subheadings. This minor change would make the proposed standard appear more principal-based by providing a proper context for the discussions on changes in accounting principle and correction of material misstatements in previously issued financial statements.

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

Sincerely yours,

James R. Dalkin
Director
Financial Management and Assurance

Attachment

GAO Suggested Editorial and Other Changes to Proposed SAS:
"*Consistency of Financial Statements*"

Suggested Editorial and Other Changes	Reasoning for Suggested Changes
Reporting on Changes in Accounting Principles (Ref: par. 9—12) **A7.** The following is an example of an *emphasis of matter paragraph* for a change in accounting principle resulting from the adoption of a new accounting pronouncement: *Emphasis of Matter* As discussed in Note X to the financial statements, in [*insert year(s) of financial statements that reflect the accounting method change*], the entity adopted **a** new accounting ~~guidance~~ **principle** [*insert description of new accounting ~~guidance~~* ***principle***]. Our opinion is not qualified with respect to this matter.	Proposed change will make the wording in the example *emphasis of matter paragraph* consistent with the first sentence of paragraph A7, and will more appropriately classify the change denoted in the *emphasis of matter paragraph* as a change in accounting principle.
Correction of a Material Misstatement in Previously Issued Financial Statements (Ref: par. 14—15) **A11.** A change from an accounting principle that ~~is~~ **was** not in accordance with the applicable financial reporting framework to one that is in accordance with the applicable financial reporting framework is a correction of a misstatement.	Proposed change will accommodate situations when the accounting principle that was used was not in accordance with the applicable financial reporting framework at the time it was used, but is now in accordance with the applicable financial reporting framework.