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United States Government Accountability Office
Washington, DC 20548

August 31, 2009

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Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036-8775

Subject: AICPA Auditing Standards Board (ASB) June 2009 Exposure Draft of Proposed Statement on Quality Control Standards (SQCS) entitled *A Firm's System of Quality Control (Redrafted)*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the ASB's proposed SQCS on quality control. We commend the ASB for converging its quality control standard with the International Auditing and Assurance Standards Board's (IAASB) International Standard on Quality Control (ISQC) No. 1 *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. Overall, we support the proposed statement and believe it appropriately addresses a firm's responsibilities for its system of quality control.

Our comments and suggestions for improving the standard are noted below.

Comments on Engagement Quality Control Review

In its request for comments on the proposed SQCS and the related Statement on Auditing Standards (SAS) *Quality Control for an Audit of Financial Statements*, the ASB has requested comment on whether additional requirements relating to engagement quality control review should be included in the proposed standard, specifically additional requirements relating to engagement quality control review from Public Company Accounting Oversight Board (PCAOB) *Auditing Standard No. 7 – Engagement Quality Review*.

We do not support adding requirements from the PCAOB standard to the proposed SQCS or SAS except as noted below in our response to question 2. PCAOB's AS No. 7 contains specific requirements and processes for an engagement quality review that may be appropriate for audits of issuers. The proposed SQCS provides an appropriate level of flexibility for audits of non-issuers.

Comments on Changes Resulting from Applying the Clarity Drafting Conventions and Convergence with ISQCs

Our comments on changes resulting from applying the clarity drafting conventions and from converging with the ISQC along with other suggestions for improving the proposed standard are detailed below.

(1) We believe that the objectives to be achieved by the firm as stated in the proposed SQCS are appropriate.

(2) We agree with the revisions made to the existing standard to converge with the ISQC No. 1 except for the following:

- Some procedures are so fundamental to audit quality that a reviewer could not satisfy the objectives of an engagement quality control review without considering them. The procedures listed in paragraphs A45 and A49 of the proposed SQCS, which also are included in AS No. 7, paragraphs 10 and 11, are essential to achieving the objectives of an engagement quality control review and should be elevated to be requirements in paragraph 40 of the proposed SQCS.
- If, however, the ASB decides it is not appropriate to require these procedures, then paragraphs A45 and A49 should be revised as follows to better describe the requirements in paragraph 40.

A45. In satisfying the requirements of paragraph 40, other important considerations in an engagement quality control review may include consideration of the following:

- The engagement team's evaluation of the firm's independence in relation to the specific engagement
- Whether appropriate consultation has taken place on matters involving differences of opinion or other difficult or contentious matters and the conclusions arising from those consultations
- Whether documentation selected for review reflects the work performed in relation to the significant judgments and supports the conclusions reached

A49. As discussed in paragraph 40, other matters relevant to evaluating the significant judgments made by the engagement team ~~that may be considered~~ in an engagement quality control review for audits, as well as reviews of financial statements and other assurance and related services engagements, include the following:

- Significant risks identified during the engagement and the responses to those risks
- Judgments made, particularly with respect to materiality and significant risks

- The significance and disposition of corrected and uncorrected misstatements identified during the engagement
 - The matters to be communicated to management and those charged with governance and, where applicable, other parties such as regulatory bodies
- We recommend including additional elements to the criteria for selecting engagements for the engagement quality control review. Paragraph A43 of the proposed SQCS lists the criteria for determining which engagements should be subject to an engagement quality control review. Paragraph A44 of the proposed SQCS contains guidance for identifying other engagements that were not identified by the criteria filter in A43. However, firms should be encouraged to consider additional criteria that may be appropriate and relevant for selecting engagements for engagement quality control review. The criteria should be revised to allow for the selection of engagements for engagement quality control review as determined through the professional judgment of firm or engagement management in accordance with the firm's policy.

We suggest revising paragraph A43 and deleting paragraph A44 in the proposed SQCS, as follows:

A43. The structure and nature of the firm's practice are important considerations in establishing criteria for determining which engagements are to be subject to an engagement quality control review. Such criteria may include, for example

- the nature of the engagement, including the extent to which it involves a matter of public interest.
- the identification of unusual circumstances or risks in an engagement or class of engagements.
- whether laws or regulations require an engagement quality control review.
- additional engagements identified by firm or engagement management due to their size, risks, complexity, public interest aspects, or other considerations.

~~A44. Certain governmental entities may be of sufficient significance to warrant performance of an engagement quality control review. Other entities also may be significant due to size, complexity, or public interest aspects and, consequently, have a wide range of stakeholders. Examples include government-owned corporations and public utilities. Ongoing transformations within such entities may also give rise to new types of significant entities. No fixed objective criteria exist on which the determination of significance is based. Nonetheless, firms may determine that such an entity is of sufficient significance to warrant performance of an engagement quality control review.~~

(3) We agree with the differences between the proposed SQCS and ISQC No. 1.

(4) We agree with the governmental considerations included in the proposed standard, and offer the following suggestions for improving them:

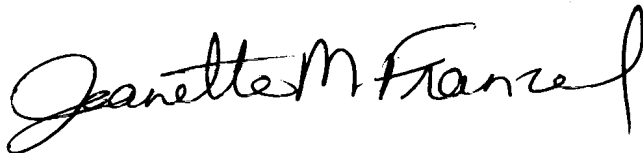
- The proposed SAS *Quality Control for an Audit of Financial Statements* applies to audits of government entities performed by firms. Most government audit organizations would not be considered a firm under the definition in paragraph 12 of this SQCS. Consequently, this AICPA SQCS would not apply to these government audit organizations. To alert auditors of the applicability of these standards, we suggest adding the following paragraph to precede paragraph A1 of the proposed SQCS.

Considerations Specific to Government Entities (Ref: par. 1)

[New paragraph to precede paragraph A1.] This proposed SQCS addresses a CPA firm's responsibilities for its system of quality control for its accounting and auditing practice, including audits and attestations performed by CPA firms in accordance with *Government Auditing Standards* (GAGAS). It does not apply, however, to government audit organizations that perform financial audits and attestations in accordance with GAGAS; instead, those government audit organizations are subject to the quality control and assurance standard in Chapter 3 of GAGAS, July 2007 Revision, which has requirements similar to this SQCS. Therefore, this SQCS may provide useful guidance in applying the GAGAS quality control and assurance standard.

We thank you for considering our comments on these important issues as we work together on issues of mutual interest to the accountability profession.

Sincerely yours,



Jeanette M. Franzel
Managing Director
Financial Management and Assurance

cc: Mr. Harold Monk, Chair
Auditing Standards Board

Mr. Daniel L. Goelzer, Acting Chairman
Public Company Accounting Oversight Board