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United States Government Accountability Office
Washington, DC 20548

July 15, 2009

Ms. Sherry Hazel
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) April 2009 Exposure Draft for a proposed Statement on Auditing Standards (SAS), entitled “Subsequent Events and Subsequently Discovered Facts.”

This letter provides the U.S. Government Accountability Office’s (GAO) comments on the ASB’s proposed SAS on subsequent events and subsequently discovered facts in an audit of financial statements. Generally, we support the proposed statement and agree that the standard appropriately addresses the auditor’s responsibilities to consider subsequent events and subsequently discovered facts in a financial statement audit. In particular, we support the clarification and enhancement of the auditor’s responsibilities related to subsequently discovered facts that become known to the auditor after the report release date and believe these provisions will help improve transparency and consistency of practice in this area.

Comments on the Definition of Subsequent Events

The ASB is seeking comments on the definitions of “subsequent events” and “subsequently discovered facts” in the proposed standard. We believe the separate definitions are appropriate and we support these new definitions.

Comments on the Reissuance of the Auditor’s Report

The ASB has requested comments on the clarity and placement within this proposed SAS of the predecessor auditor’s responsibilities when reissuing a report on previously issued financial statements of a prior period that are to be presented on a comparative basis with audited financial statements of a subsequent period.

- We agree with the placement of these requirements and believe that placing together the responsibilities of both the predecessor and successor auditor related to subsequently discovered information in this standard will help facilitate the auditor’s understanding of and compliance with these requirements.

- We recommend adding a requirement that predecessor auditors obtain information on a successor auditor's independence and competence before relying on the successor auditor's representation. As stated in the proposed SAS, a predecessor auditor may be requested by a former client to reissue a report when prior period financial statements audited by the predecessor auditor are to be presented on a comparative basis with audited financial statements of a subsequent period. In such situations the predecessor auditor is required to obtain a representation letter from the successor auditor stating whether the successor's audit revealed any matters that, in the successor auditor's opinion, might have a material effect on, or require disclosure in, the financial statements reported on by the predecessor auditor. To establish confidence in the successor auditor's representations related to subsequent events, the predecessor auditor should obtain knowledge of the successor auditor's competence and independence.

Where the predecessor auditor has previously used the work of the successor auditor, the predecessor auditor may have knowledge of the reliability of the successor auditor's work and may need no additional assurance. However, if the predecessor has no knowledge of the successor auditor's independence and competence, then the predecessor auditor should review the qualifications of the successor auditor and assess his or her independence in relation to the entity.

Accordingly, we recommend adding a new requirement to paragraph 18d and application material in a new paragraph to precede paragraph A25, as follows:

Paragraph 18: A predecessor auditor may be requested to reissue a previously issued auditor's report on financial statements of a prior period when those financial statements are to be presented on a comparative basis with audited financial statements of a subsequent period. Before reissuing a previously issued auditor's report on financial statements of a prior period that are to be presented on a comparative basis with audited financial statements of a subsequent period, the predecessor auditor should perform the following procedures to determine whether the previously issued auditor's report is still appropriate:

- a. Read the financial statements of the subsequent period to be presented on a comparative basis.
- b. Compare the prior period financial statements that the predecessor auditor reported on with the financial statements of the subsequent period to be presented on a comparative basis.
- c. Inquire of and obtain a representation letter from management of the former client stating
 - i. whether any information has come to management's attention that would cause them to believe that any of the previous representations should be modified.
 - ii. whether any events have occurred subsequent to the date of the latest prior period financial statements reported on by the predecessor auditor

that would require adjustment to or disclosure in those financial statements.

d. Obtain a representation letter from the successor auditor stating whether the successor auditor's audit revealed any matters that, in the successor auditor's opinion, might have a material effect on, or require disclosure in, the financial statements reported on by the predecessor auditor. Before relying on the successor auditor's representation, the predecessor auditor should obtain knowledge of the successor auditor's professional competence and independence with respect to the audited entity. (Ref. new paragraph to precede paragraph A25)

New paragraph to precede paragraph A 25

Where the predecessor auditor has previously used the work of the successor auditor, the predecessor auditor may have knowledge of the reliability of the successor auditor's work and may need no additional assurance. However, if the predecessor has no knowledge of the successor auditor's independence and competence, then the predecessor auditor should review the qualifications of the successor auditor and assess his or her independence in relation to the entity. (Ref. paragraph 18d)

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

Our comments on changes resulting from applying the clarity drafting conventions and from converging with the International Standard on Auditing (ISA) along with other suggestions for improving the proposed standard are detailed below.

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

(2) We agree with the revisions made to the existing standard to converge with the ISA 560 except for the following:

- In paragraph 9 we recommend adding the phrase “at a minimum” before the list of requirements for evaluating the auditor's risk assessment in determining the nature and extent of auditor procedures to identify subsequent events. This minor change will clarify that the auditor is not limited to performing only the listed procedures but should also consider whether additional procedures may be needed to identify subsequent events.

Paragraph 9: The auditor should perform the procedures required by paragraph 8 so that they cover the period from the date of the financial statements to the date of the auditor's report or as near as practicable thereto. The auditor should take into account the auditor's risk assessment in determining the nature and extent of such audit procedures, which should include, at a minimum, the following: (Ref: par. A5–A6)

- a. Obtaining an understanding of any procedures that management has established to ensure that subsequent events are identified.
- b. Inquiring of management and, where appropriate, those charged with governance, about whether any events have occurred after the date of the financial statements that might affect the financial statements. (Ref: par. A7)
- c. Reading minutes, if any, of the meetings of the entity's owners, management, and those charged with governance that have been held after the date of the financial statements and inquiring about matters discussed at any such meetings for which minutes are not yet available. (Ref: par. A8)
- d. Reading the entity's latest subsequent interim financial statements, if any.

(3) We agree with the differences between the proposed SAS and ISA 560.

(4) We agree with the governmental considerations included in the proposed standard.

(5) Other Comments

- Paragraph A15 of the proposed standard lists steps that may be taken by management to ensure that anyone in receipt of audited financial statements that were or should be amended by management is informed that those financial statements are not to be relied upon. We recommend adding a sentence in paragraph A15 indicating that if the entity's financial statements are posted on a Web site, then it would be appropriate for the entity to post a notice on the site to notify the public that the financial statements are not to be relied upon. This guidance will assist auditors in satisfying the requirement in paragraph 16b to assess whether management has taken timely and appropriate steps to notify anyone in receipt of the financial statements that they are not to be relied upon. Accordingly, we recommend adding the following sentence in the first bullet in paragraph A15:

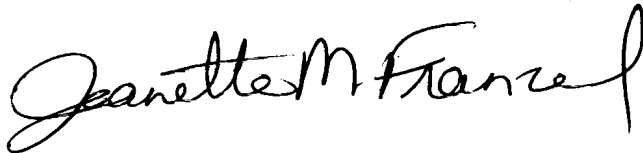
Paragraph A15: The steps taken by management to ensure that anyone in receipt of the audited financial statements is informed of the situation, including that the audited financial statements are not to be relied upon, depend on the circumstances. Management's steps may include the following:

- Notification to anyone who is known to be relying or who is likely to rely on the financial statements and the auditor's report that they are not to be relied upon, and that amended financial statements, together with a new auditor's report, will be issued. This may be necessary when the issuance of amended financial statements and a new auditor's report is not imminent. If the entity's financial statements are posted on a Web site, then posting such a notice on the site would be appropriate.

- Issuing, as soon as practicable, amended financial statements with appropriate disclosure of the matter.
- Issuing the subsequent period's financial statements with appropriate disclosure of the matter. This may be appropriate when issuance of the subsequent period's audited financial statements is imminent.

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

cc: Mr. Harold Monk, Chair
Auditing Standards Board

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