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Comptroller General
of the United States

United States Government Accountability Office
Washington, DC 20548

May 2, 2005

Mr. John Fogarty, Chair
Auditing Standards Board
AICPA
1211 Avenue of the Americas
New York, NY 10036-8775

Subject: Proposed Statement on Auditing Standards --*Audit Documentation*
(To Supersede Statement on Auditing Standards No. 96, Audit Documentation)

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Auditing Standards Board's (ASB) January 12, 2005 exposure draft of a proposed Statement on Auditing Standard (SAS) entitled *Audit Documentation*.

We commend the ASB for the many provisions in the proposed standard that add rigor and consistency to ASB auditor documentation requirements. Overall, we support the proposed standard. We are especially pleased that the proposed standard adopts the reviewability principle that is set forth in U.S. *Government Auditing Standards*. Under the provisions of the reviewability principle, "audit documentation related to planning, conducting, and reporting on the audit should contain sufficient information to enable an experienced auditor who has had no previous connection with the audit to ascertain from the audit documentation the evidence that supports the auditors' significant judgments and conclusions."¹ The reviewability principle is also incorporated by the U.S. Public Company Accounting Oversight Board (PCAOB) in its Auditing Standard No. 3, "Audit Documentation" and is included in the proposed revisions to the audit documentation standard of the International Auditing and Assurance Standards Board (IAASB).

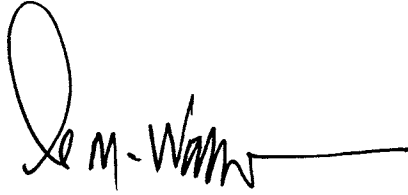
The enclosure to this letter details GAO's comments on the following provisions of the ASB's proposed standard on audit documentation:

- Definition of Experienced Auditor
- Timing of Audit Documentation
- Retention of Audit Documentation

¹ *Government Auditing Standards* (GAO-03-673G, June 2003), paragraph 4.22.

We thank you for considering our comments on this important proposed standard as we work together on issues of mutual interest in the accountability profession.

Sincerely yours,

A handwritten signature in black ink that reads "D M Walker" with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

Enclosure

cc:

The Honorable William H. Donaldson, Chairman
Securities and Exchange Commission

The Honorable William J. McDonough, Chairman
Public Company Accounting Oversight Board

Mr. James M. Sylph, Technical Director
International Auditing and Assurance Standards Board

GAO's Comments on the Proposed Statement on Auditing Standard on Audit Documentation

Definition of Experienced Auditor (paragraph 8)

The definition of experienced auditor is crucial to achieving the substance of the reviewability principle. We recommend enhancing the definition of experienced auditor as follows:

For the purposes of this Statement, experienced auditor means an individual (whether internal or external to the firm) who possesses the competencies and skills in accounting and auditing standards, practices, and issues applicable to the entity and the industry in which it operates sufficient to provide a reasonable basis for evaluating the sufficiency/adequacy of the audit documentation. Consequently, the qualifications needed by an experienced auditor would vary depending on the facts and circumstances of each engagement. ~~that would have enabled him or her to perform the audit, and therefore has an understanding of audit processes and of auditing and financial reporting issues relevant to the industry in which the entity operates.~~

Timing of Audit Documentation

We encourage the ASB to incorporate into the proposed standard a requirement for auditors to complete audit documentation, including supervisory review, for significant matters that support the auditor's findings and conclusions before the auditor's report is issued. Such a requirement would be consistent with *Government Auditing Standards*² and could be worded as follows:

Audit documentation, including supervisory review, should support the auditor's findings and conclusions before delivery of the auditor's report.

² *Government Auditing Standards* (GAO-03-673G, June 2003), paragraph 4.22.

GAO's Comments on the Proposed Statement on Auditing Standard on
Audit Documentation (continued)

Retention of Audit Documentation (Paragraph 30)

Paragraph 30 of the proposed standard prohibits the auditor from deleting or discarding documentation after the audit file has been completed. This prohibition appears to require the auditor to maintain documentation in perpetuity. We recommend modifying the standard to clarify that the auditor should not delete or discard documentation before the end of the established retention period discussed in paragraph 31 of this standard. As modified, the standard could be worded as follows:

After the audit file has been completed, the auditor should not delete or discard audit documentation before the end of the specified retention period, as discussed in paragraph 31 of this Standard. Where the auditor finds it necessary to make an addition (including amendments) to audit documentation after the audit file has been completed, the auditor should document the addition in accordance with paragraph 28.