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United States Government Accountability Office
Washington, DC 20548

May 9, 2005

Ms. Sherry Boothe
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, New York 10036

Subject: Proposed statement on auditing standards *Defining Professional Requirements in Statements on Auditing Standards* dated March 2, 2005

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Auditing Standards Board's (ASB) exposure draft of a proposed statement on auditing standards *Defining Professional Requirements in Statements on Auditing Standards* and a related proposed statement on standards for attestation engagements dated March 2, 2005. We appreciate the opportunity to have participated as a member of the task force that prepared this exposure draft and are pleased to contribute further to the deliberative process by providing comments on the exposure draft.

GAO supports improved transparency and accountability in the accounting and auditing profession and commends the ASB on its efforts to improve the clarity of its auditing standards. We also commend the ASB for striving to achieve consistency with the standards of the Public Company Accounting Oversight Board (PCAOB) and the International Federation of Accountants (IFAC) in areas where consistency is appropriate. Following are our comments on the exposure draft. Paragraph references are to the proposed statement on auditing standards (SAS); however, given the interrelationship of these proposed statements, our comments are applicable to both proposals.

Categories of Professional Requirements – Paragraph 4

We agree with the categories of requirements identified and defined by specific terms in the exposure draft to describe the degree of responsibility that the standards impose on auditors. We strongly support the requirement for documenting a departure from an applicable presumptive requirement. We agree that these departures should be rare, and that the documentation be required to include not only why the auditor decided to depart from the presumptive requirement, but also how the alternative procedures performed in the circumstances were sufficient to achieve the objectives of the presumptive requirement. We also agree with the language in the last sentence of paragraph 2 that states that "Auditors have a responsibility to consider the entire text of a relevant SAS in carrying out their work

on an engagement and in understanding and applying the professional requirements of the relevant SAS(s).”

From an editorial standpoint, we suggest inserting the word “however” instead of “but” in the first sentence of the presumptive requirements definition to more clearly indicate that there is an exception, albeit rare, to this requirement.

Explanatory Material – Paragraphs 5 and 6

To help to further distinguish explanatory material from professional requirements in the standards, we suggest that standard terminology be used, where appropriate, to indicate actions that the auditor has a responsibility to consider. We suggest including and defining the words “may,” “might,” and “could” as indicating these optional actions for consideration. These terms are also used by the PCAOB in its professional standards to describe similar professional responsibilities for auditors. Consistent use of these terms by standard setters will serve to increase the ease of use of the standards, encourage consistent application, and contribute to audit quality.

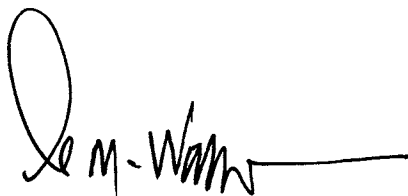
From an editorial standpoint, use of the word “require” in the third sentence of paragraph 6 could cause confusion given the definition and use of the words “require” and “requirements” in paragraph 4. We suggest replacing the word “require” with “deserve.”

Implementation of Proposals – Paragraph 7

The proposal to apply the proposed statement to the existing standards is consistent with the implementation approach being used by the PCAOB and IFAC. However, it will be critical for auditors to have a clear, specific understanding of what the current requirements will be after this proposal is adopted. We encourage the AICPA to develop quality control implementation tools and guidance to assist the auditor in identifying the requirements and distinguishing between the categories of professional requirements after adoption of this proposal. We also encourage the AICPA to consider this new terminology when issuing new auditing standards codifications.

Thank you for the opportunity to provide our comments on these important issues. If you have any questions on our comments, we are available for further discussions.

Sincerely yours,

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

David M. Walker
Comptroller General
of the United States