



G A O

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Comptroller General
of the United States

United States Government Accountability Office
Washington, DC 20548

July 31, 2006

Mr. James M. Sylph
Technical Director
International Auditing and Assurance Standards Board
545 Fifth Avenue, 14th Floor
New York, NY 10017

Subject: Proposed International Standard on Auditing (ISA) 600, *The Audit of Group Financial Statements*

Dear Mr. Sylph:

This letter provides the U.S. Government Accountability Office's (GAO) comments on the revised exposure draft of the International Auditing and Assurance Standards Board's (IAASB) proposed International Standard on Auditing (ISA) 600, which was issued in March 2006.

GAO commends the IAASB's efforts to strengthen the standards and guidance for group audits. We support strengthening the audit procedures performed by the group auditor in a group audit situation. We also believe that the most recent exposure draft is more clearly written and better organized than the prior exposure draft. We are pleased to see that the IAASB incorporated some of the comments in our letter dated August 2, 2005. For example, we agree with your decision to eliminate the distinction between related and unrelated auditors. However, some of the comments in our previous letter still apply to this revised exposure draft.

Most important, we continue to strongly disagree with the IAASB's decision to eliminate the distinction between sole and divided responsibility among auditors. In our August 2, 2005, letter, we expressed serious concern about whether the proposed standard would be viable in audits of large, complex, and diverse entities. We have particular concerns about the implications for large public sector entities, such as national and state governments. For instance, given the size and complexities of the U.S. government as well as large state and local governments, it is frequently impractical, inefficient, or uneconomical for group auditors to review the other auditors' workpapers or to perform significant other procedures on the financial information of the component that was audited by other auditors. In addition, there may be circumstances in which the group auditors decide, regardless of any other considerations, to make reference in their reports to the audits of other auditors in order to clearly indicate the division of responsibility. In the United States, over 90 percent of the 50 state auditors make reference in their reports to other auditors for certain component entities that are included in the financial statements of the state

governments. At the federal government level in the United States, the flexibility to refer to other auditors in the group auditors' report is essential to the auditors of the large and complex federal departments and agencies as well as at the U.S. government consolidated level. We continue to believe that the flexibility to refer to another auditor in the group auditor's report is essential to preserving transparency for the users of group financial statements, maximizing audit efficiency, and providing auditors and audited entities with practical options, especially when entities are large, complex, and diverse in nature, including national and state governments.

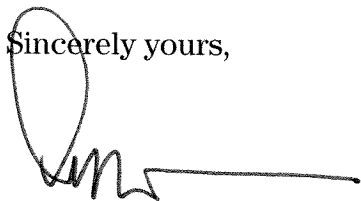
We believe that the option of divided responsibility could be provided as clearly distinct from the current proposed standard so that users can clearly differentiate between the two options. Many of the concepts and requirements in the current exposure draft would also be useful and appropriate in a situation of divided audit responsibility, including specific communications between the group auditor and other auditors and a requirement for the group auditor to gain an understanding of the other auditors' risk assessment, materiality, response to risk factors, the nature and extent of planned audit procedures, and the audit results.

We are concerned that without providing for the option of divided responsibility, some entities simply may not be able to obtain an audit opinion. This would be an undesirable outcome. Paragraphs 11 through 13 present scenarios where the only option available is to disclaim or not accept the engagement. Many government audit organizations have statutory responsibilities to perform audits, and these requirements could have an especially negative impact on state and national government entities.

We believe that the current standard is highly prescriptive. Due to the prescriptive nature of the standard, it is critical that the paragraphs and steps be put into a logical order. For example, paragraph 26 relates to the group auditor's involvement in the work performed by the other auditors but contains items in (a) through (f) that occur in the planning stages of the audit and at the end of the audit. This list of items would be more logical at the beginning of the standard as an overview. In addition, the risk assessment discussion in paragraph 27 should logically come before the auditor's response to assessed risks, which is the heading before paragraph 20. Due to the specificity of the standard, it is critical to review the entire standard for logical order.

We appreciate the opportunity to express our views on these important matters and would be pleased to discuss them with you in further detail.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'DMW', with a long horizontal line extending to the right.

David M. Walker
Comptroller General
of the United States

cc:

Mr. Gert Jönsson

Deputy Auditor General of Sweden and

Chair of the INTOSAI Sub-Committee on Financial Audit Guidelines

The Honorable Christopher Cox, Chairman

U.S. Securities and Exchange Commission

Mr. Mark Olson, Chairman

U.S. Public Company Accounting Oversight Board

Mr. John Fogarty, Chair

U.S. Auditing Standards Board