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Comptroller General
of the United States

United States Government Accountability Office
Washington, DC 20548

February 11, 2005

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

Subject: *Proposed Revisions to International Standard on Auditing No. 230 -
Audit Documentation*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the International Auditing and Assurance Standards Board's (IAASB) proposed revisions to International Standard on Auditing (ISA) No. 230 - Audit Documentation, September 2004.

We commend the IAASB for adding rigor and consistency to international auditing standards through the proposed audit documentation standard. Overall, we support the proposed standard. We are especially pleased that the proposed standard adopts the reviewability principle. This principle is consistent with the audit documentation standard set forth in U.S. *Government Auditing Standards*, which requires that "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." The enclosure contains GAO's comments on the following provisions of the IAASB's proposed revisions to the audit documentation standard:

- File Assembly Timetable
- Timing of Audit Documentation

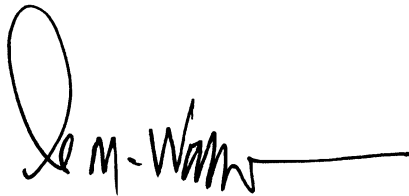
¹ *Government Auditing Standards* (GAO-03-673G, June 2003), paragraph 4.22.

- Strengthening Audit Objectives and Linking to Auditor's Report
- Addition to List of Specific Items Tested
- Conforming Wording Style with IAASB's Proposed Clarity Policy
- Examples of Significant Matters
- Clarification of Preparer and Reviewer Identification Standard
- Expansion of References to Documentation Requirements in Other ISAs
- Retention of Audit Documentation

We commend the IAASB for its efforts to develop strong globally accepted auditing standards.

We thank you for considering our comments on this important proposed standard, and we look forward to working with the IAASB and the U.S. auditing standards setting organizations on future issues of mutual interest to strengthen auditing standards globally, both in the public and private sectors.

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

Enclosure

cc:

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

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

John Fogarty
Auditing Standards Board

Lynford Graham
Auditing Standards Board

Kjell Larsson
Auditor General and
Chair of the INTOSAI Financial Audit Working Group

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File Assembly Timetable (paragraph 19)

We agree that it makes sense to have a time limitation for completing audit file assembly. We also believe that a 60-day assembly time limitation is reasonable given the broad constituency using IAASB standards. We support, however, the suggestion proposed by the International Auditing Standards Subcommittee of the American Institute of CPAs (AICPA) to change the file assembly deadline from the proposed "60 days from the date of the auditor's report" to "60 days from the delivery of the auditor's report," as follows:

The auditor should complete audit file assembly not more than 60 days after delivery of the auditor's report. ~~The auditor assembles a complete and final audit file without undue delay after the date of the auditor's report. The date on which the assembling of the audit file is finally completed is ordinarily~~

Allowing this additional time for file assembly could help improve audit documentation where there is a lag between the date of the report and delivery of the report.

Timing of Audit Documentation (paragraph 7)

We believe it is critically important 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 standard would be consistent with U.S. *Government Auditing Standards*.² We encourage the IAASB to incorporate the following wording into paragraph 7 of the IAASB's proposed documentation standard:

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.

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Strengthening Audit Objectives and Linking to Auditor's Report (paragraph 2)

We recommend clarifying the objectives of the standard on audit documentation in paragraph 2 of the proposed revisions to ISA 230 as indicated below:

The documentation should contain a sufficient level of detail to: (1) provide a clear understanding of the work performed, the source of information, and the conclusions reached, (2) clearly link to the auditor's report, and (3) demonstrate that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.
~~The auditor should prepare audit documentation that is sufficient and appropriate to provide a record of the basis for the auditor's report and to demonstrate that the audit was performed in accordance with ISAs and applicable legal and regulatory requirements.~~

Although this point is essentially made by aggregating the various parts of the standard, a more robust statement in the introduction would enhance the standard's clarity.

Addition to List of Specific Items Tested (paragraph 14)

To provide guidance on documenting specific items tested in a systematic sample, we recommend adding to paragraph 14 the following:

- When a systematic sample is selected from a population of documents, the documentation need only provide an identification of the source of the documents and an indication of the starting point and the sampling interval (for example, a systematic sample of shipping reports was selected from the shipping log for the period from X to Y, starting with report number 14564 and selecting every 250th report from that point).³

Conforming Wording Style with IAASB's Proposed Clarity Policy

GAO encourages replacing the present tense wording with alternative language to describe the auditor's responsibility in the 1st and 2nd sentences of paragraph 10 and in the 1st sentence of paragraph 17 of the proposed revisions. This would make the proposed standard consistent with the IAASB's Proposed Policy Statement on Clarity issued September 23, 2004.

³ AICPA Auditing Standards Board, Proposed Statement on Auditing Standards: Audit Documentation. New York, NY: January 12, 2005. para. 19. This same wording is used also in PCAOB, Auditing Standard No. 3, Audit Documentation, Washington, DC, June 9, 2004, para. 10.

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Examples of Significant Matters (paragraph 9)

To strengthen the standard for documenting significant matters, we recommend adding text to paragraph 9 of the proposed standard as indicated below:

The auditor should document audit findings or issues that in his or her judgment are significant, actions taken to address those finding or issues (including any additional evidence obtained), and the basis for the final conclusions reached.⁴ Judging the significance of a matter requires an objective analysis of the facts and circumstances. Significant matters include, amongst others:

- Matters that involve considering the appropriate selection and consistent application of accounting principles with regard to the fair presentation of the financial statements and the adequacy of related disclosures. Such matters often relate to (1) accounting for complex or unusual transactions, (2) estimates and uncertainties and, if applicable, the related management assumptions, or (3) issues that give rise to significant risks (as defined in ISA 315, "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement").
- Results of audit procedures indicating (a) that the financial information or disclosures could be materially misstated, or (b) a need to revise the auditor's previous assessment of the risks of material misstatement and the auditor's responses to those risks.
- Circumstances that cause the auditor significant difficulty in applying necessary audit procedures.
- Findings that could result in a modification to the auditor's report.
- Proposed corrections of misstatements of the financial information that are identified by the auditor, whether or not the misstatements are adjusted by management, that could, either individually or when aggregated with other misstatements, have a material effect on the company's financial information.

⁴ AICPA Auditing Standards Board, Proposed Statement on Auditing Standards: Audit Documentation. New York, NY: January 12, 2005, para. 13.

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Clarification of Preparer and Reviewer Identification Standard (paragraph 12)

We agree with the proposed requirements for identifying the documentation preparer and reviewer. As written, however, this requirement could leave the impression that the auditor and the reviewer should sign and date every page of audit documentation. We believe this is not the intent of the IAASB; therefore, we suggest revising the standard as follows:

12. Although specific procedures may vary, the auditor should record:

- (a) Who performed the audit work and the date of such work; and**
- (b) Who reviewed specific audit documentation and the date of such review.**

Expansion of References to Documentation Requirements in Other ISAs (Appendix)

We recommend expanding the Appendix of "Specific Audit Documentation Requirements and Guidance in Other ISAs" to include a brief description or summary of relevant provisions from the other ISAs, following a format similar to that in U.S. Auditing Standards Section AU 339.15 (Appendix A). This additional information would provide useful information in one place, making the ISA more user-friendly and comprehensive.

Retention of Audit Documentation (paragraph 20)

As presently written, the prohibition against deleting or discarding documentation after the audit file has been completed appears to require the auditor to maintain this documentation forever. We recommend clarifying the wording to state that the auditor should not delete or discard documentation before the end of the established retention period. This would be consistent with the provisions of paragraph 29 of this standard. We recommend adding the following wording to the proposed standard:

- 20. 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 29 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 subparagraphs (a) to (c) of paragraph 17, regardless of the nature of the addition.**