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Comptroller General
of the United States

United States Government Accountability Office
Washington, DC 20548

September 15, 2007

International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, New York 10017 USA

Subject: International Auditing and Assurance Standards Board (IAASB) April 2007
Exposure Draft: *ISA 200, Overall Objective of the Independent Auditor, and the Conduct of an Audit in Accordance with International Standards on Auditing*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the IAASB's proposed revisions to ISA 200. Our comments on the proposed ISA address

- Financial Reporting Frameworks
- Scope of the ISA
- Considerations Specific to Audits of the Public Sector
- Discussing the Auditor's and Management's Responsibilities with Respect to Financial Statements
- Definitions
- Simplifying the Discussion on Applying, and Complying with, Relevant Requirements
- Sufficient Appropriate Audit Evidence

Financial Reporting Frameworks

We recommend rewriting the discussions of financial reporting frameworks in paragraphs 16 and A2-A8 of the Exposure Draft to make the discussions more understandable and consistent with ISAs 700 and 800. For instance, we have the following concerns with these paragraphs:

- Paragraph 16 introduces the term "compliance framework" to refer to a framework that is not a "fair presentation framework;" however, "compliance framework" is not used elsewhere in the standards. We recommend instead using "framework that is not designed to achieve fair presentation," which is consistent with the terminology used in ISA 800.09.
- We recommend further developing the definition of fair presentation framework in paragraph 16, which seems incomplete and does not include important qualities discussed in ISA 700.10, such as providing a context for evaluating the fair presentation of the financial statements.

- The terms “general purpose framework” and “special purpose framework,” which are used in paragraph A3, are not defined in the standard. Definitions for these terms should be developed from the descriptions in ISA 800.09 and included in the proposed standard.
- We recommend clarifying and contrasting the effects on the audit and on the auditor’s report of (1) a fair presentation framework verses a framework that is not designed to achieve fair presentation, and (2) a general purpose framework verses a special purpose framework. This could be done by providing guidance and examples or by referring to other standards. Without this clarification, the purpose of the discussion of the framework classifications is unclear.

Scope of the ISA

We recommend adding a brief explanation to paragraph 1 of the proposed standard indicating why the requirements in paragraphs 17-29 repeat requirements in other ISAs. The proposed standard does not indicate until page 25, in paragraph A41, that certain requirements it establishes are repeated and detailed in other ISAs. We recommend alleviating this confusion by adding a brief explanation in paragraph 1, as follows:

1. This International Standard on Auditing (ISA) establishes the independent auditor’s overall responsibilities when conducting an audit in accordance with ISAs. These requirements are repeated and described in more detail in other ISAs.

Considerations Specific to Audits of the Public Sector

We recommend expanding the discussion in paragraph A47 on considerations specific to audits of the public sector to more fully discuss the important point that public sector audits may include objectives broader than obtaining reasonable assurance that the financial statements are free from material misstatement. We suggest revising paragraph A47 as follows:

A47. ISAs are relevant to engagements in the public sector. The public sector auditor’s responsibilities, however, may be affected by the audit mandate, or by obligations on public sector entities arising from legislation, regulation, ministerial directives, government policy requirements, or resolutions of the legislature, which may encompass a broader scope than an audit of financial statements in accordance with the ISAs.

The objectives of a financial statement audit in the public sector are often broader than reporting whether the financial statements have been prepared.

in all material respects, in accordance with the applicable financial reporting framework (i.e., the scope of the ISAs). The objectives may include additional audit and reporting responsibilities, such as reporting whether the auditor found any instances of non-compliance with authorities including budget and accountability and/or reporting on the effectiveness of internal control. Even when there are no additional reporting objectives, there may be general public expectations in regard to public sector auditors' reporting of non-compliance with authorities or reporting on the effectiveness of internal control. Therefore, responsibilities and expectations are important considerations when planning and performing public sector audits.

These additional responsibilities are not dealt with in the ISAs. They may be dealt with in the pronouncements of the International Organization of Supreme Audit Institutions.

We also recommend acknowledging in the second and third bullets of paragraph A29 that while auditors ordinarily do not express an opinion on management's efficiency or effectiveness or on compliance with laws and regulations, these additional responsibilities are often relevant in public sector audits. This acknowledgement could be made by including a reference to paragraph A47 in paragraph A29.

Discussing the Auditor's and Management's Responsibilities with Respect to Financial Statements

We are concerned that the discussion of responsibilities with respect to financial statements in paragraphs 7 and 8 of the proposed standard could be interpreted as relieving auditors of responsibility for assessing the completeness and fair presentation of the financial statements under audit. We suggest revising paragraphs 7 and 8 as follows:

Preparation of the Financial Statements

7. An audit by an independent auditor is premised on the fact based on the assumption that the financial statements subject to audit are those of the entity, prepared and presented by management of the entity with oversight from those charged with governance, with the auditor engaged for purposes of forming and expressing an opinion on them. The audit of the financial statements does not relieve management and those charged with governance of their responsibilities. ~~The auditor is also entitled to expect that management and those charged with governance will make available to the auditor all the information the auditor requires for the purposes of the audit.~~ 8. Accordingly, ~~at~~ although ISAs do not impose responsibilities on management and those charged with governance and do not override laws and regulations that govern their responsibilities, ISAs are written, and audits are conducted, on the premises that management and, where appropriate, those charged with governance:

(a) Acknowledge and understand their responsibility for preparing and presenting the financial statements in accordance with the applicable financial reporting framework (Ref: Para. A2-A8);

(b) Acknowledge and understand their responsibility for designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; and

(c) Will provide complete information to the auditor, including all the information the auditor requires for the purposes of the audit.

These assumption, however, do not reduce the auditor’s responsibility to maintain an attitude of professional skepticism and to obtain sufficient appropriate audit evidence, as discussed in paragraphs 18-19 of this standard and in other ISAs.

Definitions

We recommend expanding the list of definitions in paragraph 16 of the proposed ISA to include definitions for the terms “assertion,” “professional judgment,” “professional skepticism,” and “financial reporting framework” in order to encourage consistency of practice, since these terms are used frequently in the proposed standard. Definitions for “assertion” and “professional skepticism” can be found in the glossary of terms in the *Handbook of International Auditing, Assurance, and Ethics Pronouncements*. The definition for “professional judgment” is in paragraph 24 of the proposed ISA, and a definition for “financial reporting framework” may be developed from the description provided in paragraphs A4-A8.

In addition, we suggest modifying the definition of “applicable financial reporting framework” in paragraph 16(a) to remind auditors of the responsibilities of those charged with governance with regard to the financial reporting framework adopted by the entity. The definition could be modified as follows:

16. For purposes of the ISAs, the following terms have the meanings attributed below:

(a) Applicable financial reporting framework – The financial reporting framework adopted by management and those charged with governance in preparing and presenting the financial statements that is acceptable appropriate for users in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

Simplifying the Discussion on Applying, and Complying with, Relevant Requirements

The discussion on applying, and complying with, relevant requirements in paragraphs 27 and 28 of the proposed standard is confusing and could be interpreted differently by different users. We recommend simplifying paragraphs 27 and 28 to make them more understandable and to encourage consistency of practice, as follows:

27. ~~Subject to paragraph 28, t~~The auditor shall comply with the requirements of an ISA ~~in all cases where such requirements are relevant except when: A requirement is relevant unless, in the circumstances of the audit:~~

- (a) The ~~ISA requirement~~ is not relevant; or
- (b) The circumstances envisioned in the requirement do not apply because the requirement is conditional and the condition does not exist. (Ref: Para. A61-A62)

28. In exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement to achieve the ~~aim objectives~~ of that requirement. In such circumstances, the auditor shall perform alternative audit procedures to achieve the ~~objectives aim~~ of that requirement. The need for the auditor to depart from a relevant requirement is expected to arise only where the requirement is for a specific procedure to be performed and, in the specific circumstances of the audit, that procedure would be ineffective. The auditor need not apply a requirement that is not relevant in the circumstances of the audit; this does not constitute a departure from the requirement. (Ref: Para. A63)

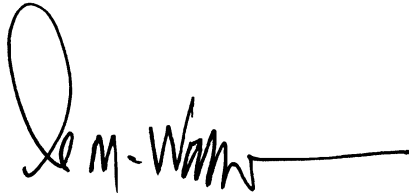
In addition, we recommend providing guidance in the proposed standard indicating when a requirement may be “not relevant.” Such guidance will help promote consistency of practice.

Sufficient Appropriate Audit Evidence

We recommend referencing the requirement to obtain sufficient appropriate audit evidence in paragraph 19 of the proposed standard to ISA 500, which describes the requirement in greater detail, and to the related application material in paragraphs A34-A37. Such cross referencing will improve the usability of the proposed standard.

We thank you for considering our comments on these important issues.

Sincerely yours,

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

David M. Walker
Comptroller General
of the United States

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

The Honorable Christopher Cox, Chairman
Securities and Exchange Commission

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

Mr. Harold Monk, Chair
Auditing Standards Board