



G A O

Accountability • Integrity • Reliability

United States Government Accountability Office  
Washington, DC 20548

---

October 31, 2012

Ms. Sherry Hazel  
Audit and Attest Standards  
American Institute of Certified Public Accountants  
1211 Avenue of the Americas  
New York, New York 10036-8775

Subject: AICPA Auditing Standards Board (ASB) August 2012 Exposure Draft for a proposed Statement on Auditing Standards (SAS), entitled “*Omnibus Statement on Auditing Standards—2012*”

This letter provides the U.S. Government Accountability Office’s (GAO) comments on the ASB’s proposed SAS. Our views are consistent with our December 15, 2009 communication to the ASB on their September 2009 Exposure Draft of proposed Statement on Auditing Standards *Audits of Group Financial Statements (Including the Work of Component Auditors.)*; GAO generally supports the proposed SAS and we believe that the primary effect will be to improve the quality of group audits.

Although we generally support the proposed amendments, we have specific comments on certain issues that we believe may detract from the clarity of the Board’s proposed SAS. These issues of concern include (1) references to auditing standards in addition to generally accepted auditing standards (GAAS), (2) the use of the term “*comparable*” when referring to a component auditor’s report that uses a financial reporting framework other than that used for the group financial statements, (3) a lack of clarity of what is meant by “*additional audit procedures performed by a component auditor*”, and (4) potential changes to the definition of “*other basis of accounting*”. Our comments on these issues, identified in the Board’s proposed SAS, are provided below.

**Special Considerations – Audits of Group Financial Statements lack reference to *Government Auditing Standards***

We believe that the revised wording to paragraph 25 *a*, section 600 *Special Considerations – Audits of Group Financial Statements* is incomplete without reference to *Government Auditing Standards* (GAGAS) which is required for use by auditors of government entities and entities that receive government awards, in addition to audit organizations performing GAGAS audits. Paragraph 25 *a* (edited) states:

*a. the group engagement partner has determined that the component auditor has performed an audit of the financial statements of the component in accordance with the relevant requirements of GAAS or with auditing standards promulgated by the Public Company Accounting Oversight Board (PCAOB).*

We are concerned that the revised wording does not take into account the auditing standards for financial audits of government programs and entities that receive government funds, which are also required to comply with GAGAS. Whereas only publicly listed companies are subject to the requirements of the PCAOB, GAGAS compliance is required in the audits of government entities and entities that receive government awards. Additionally, explanatory paragraph A57 appears to contemplate the use of this revised SAS by government entities for which GAGAS would be relevant, specifically through mention of the financial reporting frameworks established by the Governmental Accounting Standards Board and Federal Accounting Standards Advisory Board, as acceptable bases of accounting.

We recommend the inclusion of “*Government Auditing Standards*” to the revised paragraph 25 *a* as follows:

**.25** Reference to the audit of a component auditor in the auditor’s report on the group financial statements should not be made unless  
~~*a. the component’s financial statements are prepared using the same financial reporting framework as the group financial statements; (Ref: par. A53)*~~  
*b. a. the group engagement partner has determined that the component auditor has performed an audit ~~on~~ of the financial statements of the component in accordance with the relevant requirements of GAAS, Government Auditing Standards, or, when required by law or regulation, with auditing standards promulgated by the Public Company Accounting Oversight Board (PCAOB) (Ref: par. A54. ~~A53~~); and*

Further, to encourage consistency within the proposed standard, we recommend that the Board include a reference to the relevant requirements of GAGAS, in addition to the relevant requirements of GAAS, to paragraph 30.

### **“Comparable” Financial Reporting Frameworks**

Although we generally support the amendment to SAS No. 122, Section 600, paragraph 26, we are concerned that the term “comparable”, when referring to the different financial reporting frameworks used in the group and component’s financial statements, is unclear and could cause confusion. We feel that the proposed standard would be both clearer and more practicable if it more fully explained the idea of comparability of the measurement, recognition, presentation, and disclosure criteria between different financial reporting frameworks. This could be accomplished by listing additional considerations in determining comparability when the component’s financial statements are prepared using a different financial reporting framework than that used for the group financial statements.

## **Additional Audit Procedures and Professional Judgment**

We believe the proposed standard would be more easily understood and practiced with greater conformity and consistency if it contained a greater discussion of the meaning of the component auditor's performance of "additional audit procedures".

We do not fully support the amendment to SAS No. 122, Section 600, paragraph 30, which adds a requirement that when the auditor of the group financial statements is making reference to the audit of a component auditor and has determined that the component auditor performed additional audit procedures in order to meet the relevant requirements of GAAS, the auditor's report on the group financial statements should clearly indicate that additional audit procedures were performed. We are concerned that the term "additional audit procedures" lacks clarity and may lead to misunderstandings as to what comprises the additional audit procedures necessary for the component auditor to perform to meet the relevant requirements of GAAS. Additionally, it is unclear how the group auditor would determine whether the "additional audit procedures" performed by the component auditor are appropriate or how the group auditor would communicate in its report that additional audit procedures were performed by the component auditor. For these reasons, we recommend that the Board included a greater discussion of the component auditor's "additional audit procedures" that were performed in order to meet the relevant requirements of GAAS, in addition to a discussion of how the group auditor would communicate in its report that appropriate, additional audit procedures were performed by the component auditor.

Further, we are concerned that the revised wording does not take into account the possibility that it may not be necessary for the component auditor to perform additional audit procedures in order for the group auditor to determine that the relevant requirements of GAAS were met. For example, an audit performed in accordance with the International Auditing and Assurance Standards Board standards may meet the relevant requirements of GAAS without any additional procedures being performed.

## **Definition of "Other Basis"**

We do not support the amendment to SAS No. 122, Section 800, paragraph 7 e, and "other basis" as we are concerned that the change to the wording in the definitions of the proposed standard is confusing and may allow for the use of an inappropriate basis of accounting, such as those that were previously disallowed by the standards. SAS No. 122, Section 800, introduced the term *special purpose framework* which was described as a financial reporting framework other than Generally Accepted Accounting Principles (GAAP) that is either a cash, tax, regulatory, or contractual basis of accounting, and that the cash, tax, and regulatory bases of accounting are commonly referred to as *other comprehensive bases of accounting* (OCBOA). We note that the term OCBOA was replaced with the term *special purpose framework*, and the SAS No. 122, section 800, definition does not include "a definite set of criteria having substantial support that is applied to all material items appearing in

financial statements”. It is not clear what was meant by “...*definite set of logical, reasonable criteria that is applied to all material items appearing in the financial statements...*” and we believe that this could result in an entity developing an inappropriate basis of accounting. To encourage consistent and comparable reporting, we encourage the Board to include explanatory information that provides a fuller description of “other basis”, including a discussion of the factors to consider when determining whether another basis of accounting meets the revised criteria, to avoid the possibility of preparers and auditors using an inappropriate basis of accounting.

We thank you for considering our comments on these important issues as the Board continues its effort to clarify the SASs and to address issues that have arisen subsequent to the issuance of the clarified Standards.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James R. Dalkin  
Director  
Financial Management and Assurance