

Auditing Standards— Convergence or Divergence?

National Intergovernmental Audit Forum

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Session Objective

- Discuss GAO's work to modernize auditing standards and achieve consistency and convergence
- Present “infomercial” for the 2007 Revision of *Government Auditing Standards* and major changes
- Discuss current challenges in convergence and public sector audit environment

GAO's Work to Modernize Auditing Standards

Auditing Standards

- Creating the U.S. Auditing Standards Coordinating Forum (i.e., GAO, PCAOB, ASB)
- Promulgating and updating *Government Auditing Standards*
- Promoting the modernization of auditing standards and approaches by working cooperatively with other groups and providing technical assistance and policy input (e.g., PCAOB, AICPA, IAASB, INTOSAI, U.S. Intergovernmental Audit Forums)

GAO's Goals for Establishing Government Auditing Standards

- Develop high quality *Government Auditing Standards* that are well understood, highly regarded, widely used, and serve as a model for other environments such as the private sector and other governments around the world
- Provide leadership in modernizing and transforming the accountability profession in the public and private sectors
- Encourage the development of consistent, core auditing standards for both the public and private sectors
- Provide a foundation for the accountability profession that is effective, ethical, and prepared for the challenges of the 21st century

Our strategies

- Identify potential issues where GAO should take the lead in standards issues through its auditing standards-setting role using information from the following sources:
 - Comptroller General’s Advisory Council on Government Auditing Standards, Accountability Advisory Group, and Domestic Working Group
 - U.S. Auditing Standards Coordinating Forum
 - Issues raised during internal quality reviews, inspections, and external peer review
 - Activities of other standards-setting organizations, including the PCAOB, IAASB, INTOSAI, and AICPA
 - GAO staff work to monitor implementation of current accountability reforms
 - GAO staff interaction with government auditors and CPA firms through ongoing outreach, training, and guidance provided in responses to e-mail and phone questions on implementing the standards.
 - Issues raised through the Intergovernmental Audit Forums

Our strategies (cont.)

- Advocate for high quality AICPA fieldwork and reporting standards, which are incorporated into the Yellow Book.
- Address areas of deficiencies in the AICPA standards by incorporating mitigating or compensating standards in the Yellow Book.
- Continuously evaluate newly issued standards (AICPA, PCAOB, IAASB, INTOSAI) and their potential relevance to government auditors in the U.S.
- Actively coordinate with the other standards setters
- Write comment letters on exposure drafts o the other standards setters.
- Develop a highly skilled staff to carry out GAO's standards-setting role in the current environment where significant pressures exist for increased government performance and accountability in an era of unsustainable government operations, and rapid and constant change in technology, financial systems, government operations, and auditing.

Infomercial:

**Government Auditing Standards
January 2007 Revision**

Government Auditing Standards, January 2007

General Audit Standards

- Audit quality assurance, peer review (re-exposed)
- Ethics/professional judgment
- Clarified the categories of nonaudit services

All Types of Audits

- Clarified terms for defining professional responsibilities
- Audit documentation

Financial Audit Standards

- Reporting deficiencies in internal control for financial audits
- Auditors' responsibility for evaluating and disclosing financial statement restatements
- Emphasizing/communicating significant matters in the auditors' report

Performance Audit Standards

- Assurance framework
- Audit risk
- Sufficient appropriate evidence

Current Issues in “Convergence” of Auditing Standards

- IAASB -- AICPA
 - AICPA proposes to be “ISA-based”
- AICPA -- PCAOB
 - PCAOB uses AICPA standards as of April 2003 as interim standards
- Yellow Book – AICPA – IAASB -- PCAOB
 - Working toward consistency where possible, while addressing unique risks of government auditing
- Yellow Book -- INTOSAI
 - INTOSAI uses ISAs

Excerpts from Feb 27, 2007 Letter GAO to PCAOB

“We have the following concerns about the proposed changes to the definitions of material weaknesses and significant deficiencies...

...The three U.S. auditing standard setters now have adopted consistent definitions of material weakness and significant deficiency, which we believe is the most beneficial to the entire community of auditors and users of auditors’ reports in the United States...

...U.S. investors and taxpayers will be better served by having standard setters minimize competing efforts and instead assure consistency, where appropriate, with regard to core auditing standards....”

Excerpts from Feb 27, 2007 Letter (cont.)

- “...Inconsistencies in such core standards increase audit costs and lead to potential confusion....
- ...If the PCAOB believes that the AS No. 2 definitions of material weaknesses and significant deficiencies need revision, we recommend convening a group of the U.S. auditing standards setters and the International Auditing and Assurance Standards Board to develop definitions that can serve as the common core for use in the standards for audits of all types of entities...
- ...We at GAO would welcome the opportunity to work with the PCAOB on such an effort.”

Public Sector Audit Environment

Public sector accountability professionals in the US face many environmental challenges:

- National and global change and a challenging fiscal outlook, including
 - The re-emergence of large federal deficits
 - A deteriorating long-term fiscal outlook
 - The changing composition of federal spending
- Rising expectations for demonstrable results and enhanced responsiveness
- Current trends and challenges that have no boundaries,
- The need to bridge an expectations gap in financial reporting and auditing

Our challenge is huge and growing bigger each year

GAO's Accountability and Standards Team

Yellow Book Team

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We also get lots of help from

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Questions?