



Advancing
Government
Accountability

2208 Mount Vernon Ave
Alexandria, VA 22301

(703) 684-6931
(703) 548-9367 (fax)



March 30, 2007

Ms. Jeanette Franzel
Director
Financial Management and Assurance
GAO-07-431G
United States Government Accountability Office
Washington, DC 20548

Dear Ms. Franzel:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB) appreciates the opportunity to provide comments on the Exposure Draft (ED) reissuing proposed changes to the quality control and assurance and peer review section of *Government Auditing Standards* previously issued for comment in June 2006. We understand that the finalized version will replace the quality control and assurance section (paragraphs 3:49 through 3:52 of Chapter 30 in the 2003 revision of *Government Auditing Standards*). The FMSB, comprising 21 members with accounting and auditing backgrounds in federal, state and local government, academia and public accounting, reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately. The FMSB concurs in general with the proposed revisions contained in the ED, except for the following.

1. Report Date Considerations – Page 8, Paragraph 3.53 e (8) provides that an audit entity should have “policies to require that engagement quality control reviews be performed for all engagements that meet established criteria, and the review be completed before the report date.” We are concerned with the phrase “before the report date.” Does “report date” refer to the date of the Independent Auditor’s Report? If so, we believe this imposes an additional requirement beyond the requirements of the Statement on Auditing Standards (SAS) No. 103. We believe this may cause some confusion since the AICPA SAS No. 103 provides very specific guidance regarding the date of the auditor’s report. SAS No. 103 provides “The auditor’s report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion”. It also provides that the audit documentation should be reviewed prior to the dating of the report. Based on the AICPA guidance, we believe this date may be prior to the final quality control (QC) review.

Many audit organizations may have a QC process where audits are reviewed by several levels within the organization before a report is released. The independent auditor’s report may be dated after the audit has undergone sufficient QC procedures to ensure the audit organization that there is sufficient evidence to support the opinion and certain minimum QC policies and procedures have been complied with... The entire QC process, however, may not be complete. For example, there may be remaining QC procedures such as “wordsmithing” or other editorial changes to be performed. For this reason, we find it troubling that the wording of the proposed revision implies that the entire QC review process be complete prior to the dating of

the report. This requirement appears to impose an additional requirement regarding the dating of the independent auditor's report beyond that required by SAS No. 103.

Since we believe the intent may be that the report not be released until after all engagement quality control reviews are performed, we believe it would be more appropriate for paragraph 3.53 e. (8) to read "policies to require that engagement quality control reviews be performed for all engagements that meet established criteria, and that the review be completed before the ***report release date***" or similar wording such as ***before the report is provided to the client.***" This change would make it clear that before a report is released and becomes a matter of public record or is provided to a client, the entire engagement QC review should be completed.

2. We applaud the strengthened emphasis on audit quality and expanded description of the overall objectives and elements of an audit organization's system of quality control, including the articulation of six key elements of quality control for achieving high quality throughout all phases of the audit process. We do suggest that the GAO consider adding a seventh element addressing information security. The section on information security could relate to ensuring that the audit organization has appropriate policies and procedures to review the client's information systems and that the audit organization has trained personnel to review audit security.

3. We also agree with the stated objective of providing added flexibility for audit organizations to have a peer review cycle of up to five years for performance audits and appreciate the expanded guidance provided in the ED.

4. Finally, we wish again to express our reservation regarding the proposed requirement in paragraph 3.61 of the ED that the external peer review reports be made public. We wish to repeat what we said previously in our comment letter dated August 15, 2006, on the ED of the 2006 revisions to the 2003 Edition of *Government Auditing Standards* issued in June 2006.

"We have no problem providing the peer review reports (results) to those charged with governance and other appropriate oversight bodies, or to the third parties to whom an audit organization reports. But we question the need and appropriateness of providing those reports to the public. The public is not trained to necessarily comprehend or place in proper perspective an external peer review report. We suggest before such a requirement is added, that education be provided to those members of the public who GAO thinks will make use of these reports."

The FMSB appreciates the opportunity to comment on the exposure draft. No members objected to the issuance of this comment letter. We would be pleased to discuss the issues in this letter with you at your convenience. Please contact Anna D. Gowans Miller, CPA, AGA's Director of Research and facilitator for this project, at amiller@agacgfm.org or (703) 684-6931, ext. 313.

Sincerely,



Robert L. Childree, Acting Chair,
AGA Financial Management Standards Board

cc: Jeffrey S. Hart, CGFM, CFE
AGA National President

**Association of Government Accountants
Financial Management Standards Board**

July 2006 – June 2007

Robert L. Childree, Chairman (Acting)
Katherine J. Anderson
Warren S. Binderman
Irwin T. David
Thomas (Bert) Fletcher
Mark Funkhouser, PhD
Donald Geiger
Joanne W. Griggs
Tim Gudeman
Patrick F. Hardiman
Albert A. Hrabak
Valerie A. Lindsey
Jeffrey A. Long
Marie A. Maguire
Dianne Mitchell McKay
Craig M. Murray
Ronald J. Points
Sharon R. Russell
Clarence L. Taylor, Jr.
Andrew C. West

Relmond P. Van Daniker, Executive Director, AGA (Ex-Officio Member)
Anna D. Gowans Miller, Technical Manager, AGA, Staff Liaison