

November 27, 2013

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: American Institute of Certified Public Accountants Auditing Standards Board's July 2013 Exposure Draft for a Proposed Statement on Standards for Attestation Engagements, Entitled *Attestation Standards: Clarification and Recodification***

This letter provides the U.S. Government Accountability Office's (GAO) comments on the Auditing Standards Board's (ASB) proposed *Attestation Standards: Clarification and Codification*. We support the ASB's efforts to apply clarity drafting conventions and to converge its standards with those of the International Auditing and Assurance Standards Board, which we believe will help ensure consistency of practice for those performing attestation engagements.

The ASB asks respondents to consider whether this revised structure facilitates understanding and implementation of the standards, and is seeking comments on changes resulting from applying the clarity drafting conventions and the effect of these changes on the content of the proposed revised standards. Our specific comments follow.

**Requests for Specific Comments**

1. Are the objectives of the practitioner in each of the chapters appropriate?

We agree with the objectives in each of the chapters and find them appropriate. We concur with the ASB's restructuring of the attestation standards so that the requirements and guidance applicable to any attestation engagement are in chapter 1, with separate chapters for examination and review engagements. *Government Auditing Standards* attestation engagement requirements and guidance were similarly revised to simplify identification of specific requirements and considerations that apply to the type of engagement performed. We believe that these specific requirements and considerations, tailored to the specific type of engagement, will help ensure consistency of practice.

2. Are the substantive and language changes to extant AT sections 20, 50, 101, and 201 made by the exposure draft appropriate?

We have several concerns with the proposed revisions that are noted below.

- The definition of agreed-upon procedures (AUP) engagements at 1.10 b *iii* does not include reference to attestation risk, as is found in paragraph 1.10 (b)(i) and (ii) related to examination and review engagements respectively. We believe that attestation risk is applicable to all attestation engagements, including AUP engagements. In an AUP

engagement, application of the procedures is the responsibility of the practitioner, and this responsibility carries with it some degree of risk. For example, the practitioner could inadvertently apply the procedures to outdated data that is not the subject of management's assertion. For this reason, we believe that paragraph 1.10b should not limit the definition of attestation risk to certain types of attestation engagements. We also recommend that the definition of attestation risk be amended as follows, with conforming changes to the application guidance:

**Attestation risk.** In an examination or review attestation engagement, the risk that the practitioner expresses an inappropriate opinion or conclusion, as applicable, when the subject matter or assertion is materially misstated. In an agreed-upon procedures engagement, the risk that the practitioner expresses an inappropriate finding based upon the procedures applied.  
(Ref: par. 1.A4–1.A9)

- We note that the definition of risk of material misstatement at 1.10(v) is not consistent with the definition of the same phrase in the clarified AU section 200.14. We realize that the AU language, which refers to risk of materially misstated financial statements, is not appropriate for attestation standards. Without clarification, the definitions may cause inconsistencies in practice. We recommend revising the definition of risk of material misstatement to clarify that it applies only to attestation engagements. The following definition would address this:

**Risk of material misstatement.** For attestation engagements, the risk that the subject matter is materially misstated or that the assertion is not presented fairly in all material respects.

The ASB may also wish consider a corresponding revision to the definition of risk of material misstatement in the auditing standards to limit its applicability to financial audits.

- We believe that the clarified audit standards provide relevant information that is helpful to practitioners performing attestation engagements. For example, the AU sections on audit evidence, including those addressing analytical procedures, sampling, and estimates, contain abundant information that, depending upon the subject matter, could be useful to practitioners performing attestation engagements. We recommend that the ASB include language in the new attestation standards that refers practitioners to AU sections for guidance if, in the practitioner's judgment, this guidance would assist in performing an engagement in accordance with the attestation standards. In addition, we note that the proposed standards do not provide specific references to guidance contained in the audit standards. This would be a change in practice from the current standards. For example, extant AT section 101.99 refers the user to AU section 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*, for guidance if the practitioner becomes aware of conditions that existed at the report date that might have affected the practitioner's report had the practitioner been aware of them. We recommend that the attestation standards continue to refer to the audit standards when applicable.
- As drafted, the documentation section of the revised standards does not provide a threshold for sufficiency of documentation for attestation engagements. In AU-C section 230.08, the audit standards provide such a threshold for audits: "The auditor should prepare audit documentation that is sufficient to enable an experienced auditor,

having no previous connection with the audit to understand” the nature timing, and extent of audit procedures performed; the results of the procedures and evidence obtained; and findings, conclusions, and significant professional judgments. The audit standard and accompanying application guidance is clearly written and effective. With some modification to the language for consistency with the needs of attestation practitioners, we believe that the documentation threshold in the audit standards would apply equally well to attestation engagements. We recommend that the ASB adopt the requirements for sufficiency of documentation in the audit standards, with appropriate modifications to meet the needs of attestation practitioners, to the revised attestation standards.

- The extant standards state that when attestation risk has been restricted only to a moderate level, as in a review engagement, the conclusion should be expressed in the form of negative assurance (AT 101.68). We encourage the ASB to revise the review engagement reporting requirements to include a clear explanation that a review engagement provides negative assurance to the report user.
- In the draft review engagement report content section, the provisions for communicating to report users the limitations of assurance provided with respect to particular engagements are not sufficient. Without a clear delineation of the scope of a review engagement, a report user cannot determine what assurances have been provided. For example, in the first illustrative review report provided in the draft standards on page 115, using the example of a conclusion on a schedule of investment returns, the report does not include an indication of what measures were taken by the practitioner to reach that conclusion. An indication in the report of the steps taken to support the limited assurance provided would be invaluable to the report user in these circumstances. For example, the report could state that the practitioner traced a sample of the investments included on the schedule for evidence of ownership by the reviewed entity and compared stated valuations to an independent source. Such a statement would allow the user to make an appropriate determination as to the limitations of the assurance provided. Consequently, we recommend that the review engagement report content section of the revised standards include a requirement that the report provide sufficient information on the scope of procedures performed by the practitioner to reach a conclusion to allow a report user to appropriately determine the limits of assurance provided. Model language for such a requirement may be available on the clarified audit standards in AU-C section 730.07 through .09 on reporting on required supplementary information.

3. Are there considerations for less complex entities and governmental entities that should be addressed in the exposure draft?

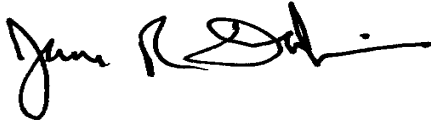
We appreciate the attention the ASB has given to governmental entities in the exposure draft by alluding to the practitioner’s procedures when an engagement is required by law or regulation. We have concerns related to the proposed requirement that a practitioner always obtain from the responsible party a written assertion about the measurement or evaluation of the subject matter against the applicable criteria for examination and review engagements, as is required at paragraphs 2.8 and 3.11, respectively. In the government environment, a practitioner may be required to perform an attestation engagement for which the responsible party is not able or willing to provide a written assertion. For example, a practitioner working at the state level may be mandated to perform an attestation engagement in accordance with generally accepted government auditing standards, including applicable AICPA attestation standards, at a municipal entity. If

management of the municipal entity does not cooperate with the practitioner or otherwise fails to provide the required assertions, the practitioner may not be able to comply with the mandate. The current standards allow a practitioner to issue a restricted-use report under these circumstances (AT 101.89). We strongly recommend that the ASB consider a provision in the new standard that would allow practitioners in a government environment to issue a restricted-use or intended-purpose report if it is not possible to obtain a written assertion from management. We note that consideration of the possibility that written representations may not be available was included in the report content sections of the draft, in paragraphs 2.52*i* and 3.43*h* for examination and review engagements, respectively. This consideration is not reflected in paragraphs 2.8 and 3.11. We recommend that the ASB revise the requirements to include such consideration.

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We thank you for considering our comments on these important issues as the ASB applies the clarity drafting conventions to the attestation standards.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a horizontal line extending to the right from the end of the name.

James R. Dalkin  
Director  
Financial Management and Assurance