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Washington, DC 20548

October 11, 2018

Ms. Sherry Hazel
1211 Avenue of the Americas
New York, New York 10036-8775

GAO's Response to the American Institute of Certified Public Accountants' Proposed Statement on Standards for Attestation Engagements, *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification*

Dear Ms. Hazel:

This letter provides GAO's comments on the American Institute of Certified Public Accountants' (AICPA) Proposed Statement on Standards for Attestation Engagements, *Revisions to Statement on Standards for Attestation Engagements No. 18, Attestation Standards: Clarification and Recodification*. GAO promulgates generally accepted government auditing standards (GAGAS), which provide professional standards for auditors of government entities in the United States.

We support the AICPA and its Auditing Standards Board's (ASB) efforts to converge its standards with those of the International Auditing and Assurance Standards Board. We note that governmental entities may have unique considerations when performing attestation engagements because of the nature of government auditing, GAGAS reporting requirements, and laws and regulations.

We believe that no longer requiring the practitioner to request a written assertion from the responsible party when the practitioner is reporting directly on the subject matter is appropriate and that the related application guidance is clear on reporting directly on subject matter.

We support the AICPA's efforts to more closely harmonize AT-C section 210 with the limited assurance provisions of International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other Than Audits and Reviews of Historical Financial Information*, including changing the term review engagement to limited assurance engagement. In addition, we support the proposed revisions to AT-C section 210 to more explicitly describe the types of procedures a practitioner may perform in a limited assurance engagement. Finally, we support the proposed revisions to AT-C section 210 that would require the practitioner's report to include an informative summary of the work performed as a basis for the practitioner's conclusion.

Proposed requirement changes to AT-C 215 to no longer require that all of the parties to the engagement (e.g., the engaging party, the responsible party (where applicable), and users of the practitioner's report) agree to the procedures to be performed and take responsibility for their sufficiency. Instead the engaging party is required to acknowledge the appropriateness of the procedures and the proposed standard would explicitly allow the practitioner to develop, or assist in developing, the procedures. We believe that the proposed requirement changes are reasonable and that the application guidance is helpful. However, with respect to agreed-upon

procedures engagements, we suggest that an illustrative example be added showing a report with restricted-use, and we suggest the addition of language consistent with the last paragraph of proposed AT-C 205 A94.

In addition, we believe that the revision of AT-C 215 allowing the practitioner to issue a general use report is reasonable, unless the procedures are prescribed and the practitioner is precluded from designing or performing additional procedures, the criteria are not available to users, or the criteria are suitable only for a limited number of users.

Finally, we believe that the ASB should work with the Professional Ethics Executive Committee to determine whether the current independence standards are sufficient in cases where there is no assertion and the practitioner has prepared the subject information or whether there should be further restrictions.

The AICPA is seeking comment on a number of questions related to the proposed standards. Our responses to the questions follow in an enclosure to this letter.

Thank you for the opportunity to comment. If you have questions about this letter or wish to discuss any of our responses, please feel free to contact me at (202) 512-3133 or dalkinj@gao.gov.

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

Enclosure

Responses to Questions

Proposed Statement on Standards for *Attestation Engagements*, *Revisions to Statement on Standards for Attestation Engagements No. 18*, *Attestation Standards: Clarification and Recodification*

- 1. Please provide your views on the proposed changes discussed in the all attestation engagements section. Specifically, indicate whether you believe the proposed changes to the attestation standards are understandable and whether the application guidance is helpful in applying the new proposed requirements.**

We believe that the proposed revisions to the existing requirements are clear and understandable and that the application material is helpful in supporting the application of those requirements. We support the Auditing Standards Board's (ASB) efforts to converge its standards with those promulgated by the International Auditing and Assurance Standards Board. We believe that the changes are reasonable and understandable related to removing the requirement for the practitioner to request a written assertion from the responsible party when the practitioner is reporting directly on the subject matter. The application guidance is helpful as it relates to written assertions.

We believe that the decision to add a statement to the practitioner's report regarding independence should be consistent with the final decision related to the proposed revisions to the reporting requirements in the ASB's exposure draft *Proposed Statement on Auditing Standards, Forming an Opinion and Reporting on Financial Statements*. The application guidance is helpful, but it may need to be modified based on the outcome of the noted audit standards exposure draft.

- 2. Please provide your views on the proposed changes discussed in the preceding section. Specifically, indicate whether you believe the proposed changes are understandable and whether the application guidance is helpful in applying the new proposed requirements. With respect to paragraph .A81 of proposed AT-C section 205 and paragraph .A68 of proposed AT-C section 210, do the application paragraphs provide sufficient guidance to enable a practitioner to supplement or expand the content of the practitioner's report if the practitioner wishes to do so? If not, what additional guidance is needed?**

We believe that the guidance for the proposed changes related to this question is understandable and that the application guidance is helpful in applying the new proposed requirements. We suggest that the guidance to provide supplemental or expanded content in the practitioner's report should clearly indicate that the practitioner may include additional information when the opinion or conclusion is modified. For example, in the government environment when the practitioner disclaims an opinion, we believe that additional reporting, such as on other identified issues, promotes transparency and is clear to the reader.

- 3. Please provide your views on the proposed changes to AT-C section 205 as discussed in the preceding section. Specifically, please indicate whether you believe the proposed changes are understandable and whether the application guidance is helpful in applying the new proposed requirements.**

We support the elimination of the required report modification when the practitioner cannot obtain one or more of the requested written representations. We believe that the proposed changes are understandable and the application guidance is helpful.

4. **Please provide your views on the proposed changes to AT-C section 210 as discussed in the preceding section. Specifically, please indicate whether you believe the proposed changes are understandable and whether the application guidance is helpful in applying the new proposed requirements. Are the illustrative reports clear and understandable with respect to the differences between a limited assurance engagement and an examination engagement? What are the potential benefits or implications of requiring the practitioner to include a description of the procedures performed in a limited assurance engagement? Also, please provide your views regarding whether an adverse conclusion is appropriate in a limited assurance engagement.**

We support the decision to change the term *review* to *limited assurance*. In addition, we believe that the decision to clarify the types of procedures performed in a limited assurance engagement provides practitioner's with necessary additional clarity on the types of procedures that can be performed.

We believe that the illustrative reports are clear and understandable regarding the differences between a limited assurance engagement and an examination. In addition, we believe that requiring the practitioner to describe the procedures performed in a limited assurance engagement will help inform the report's users.

We support the decision to allow an adverse conclusion in a limited assurance engagement.

5. **Please provide your views on the proposed changes to AT-C section 215 as discussed in the preceding section. Please indicate whether you believe the proposed changes are understandable and whether the application guidance is helpful in applying the new proposed requirements. Further, please specifically consider the following questions in your response:**

a. **Is the proposed expansion of the practitioner's ability to perform procedures and report in a procedures-and-findings format beyond that provided by AT-C section 215 needed and in the public interest?**

b. **Do the proposed revisions to AT-C section 215 appropriately address the objective of providing increased flexibility to the practitioner in performing and reporting on an agreed-upon procedures engagement while retaining the practitioner's ability to perform an agreed-upon procedures engagement as contemplated in extant AT-C section 215?**

c. **Do you agree with the proposed revision to AT-C section 215, whereby no party would be required to accept responsibility for the sufficiency of the procedures and, instead, the practitioner would be required to obtain the engaging party's acknowledgment that the procedures performed are appropriate for the intended purpose of the engagement?**

We believe that the proposed requirement changes to AT-C 215 are reasonable and that the application guidance is helpful. In addition, we believe that the proposed revision to

AT-C section 215 is generally in the public interest. We also believe that adding a requirement to obtain the engaging party's acknowledgment that the procedures performed are appropriate for the engagement's intended purpose is helpful when no party accepts responsibility for the sufficiency of the procedures. However, we suggest that an illustrative example be added showing an agreed-upon procedures report with restricted-use. In addition, we suggest the addition of language consistent with the last paragraph of proposed AT-C 205 A94, such as adding the following to the end of paragraph A57: "For example, the practitioner may determine that it is appropriate to include a restricted-use paragraph to avoid misunderstandings related to the use of the report, particularly if the report is taken out of context of the knowledge of the requesting parties in which the report is intended to be used."

- 6. Should AT-C section 210 of this proposed SSAE continue to prohibit the practitioner from performing a limited assurance engagement on (a) prospective financial information; (b) internal control; or (c) compliance with requirements of specified laws, regulations, rules, contracts, or grants? Please explain the rationale for your response.**

We agree that AT-C section 210 of the proposed SSAE should continue to prohibit limited assurance engagements on prospective financial information; internal control; and compliance with requirements of specified laws, regulations, rules, contracts, or grants. We believe that a limited assurance engagement does not provide a sufficient level of assurance to be an appropriate type of engagement for these areas.

- 7. Are respondents supportive of the proposed effective date, specifically the prohibition on early implementation? Please provide reasons for your response.**

We suggest that the proposed implementation date take into consideration the June 30 year-end date for many government entities and the revised *Government Auditing Standards* implementation date for attestation engagements for periods ending on or after June 30, 2020. We agree that early implementation would create potential confusion between engagements performed under the current standards and the proposed standards.