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United States Government Accountability Office  
Washington, DC 20548

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August 15, 2011

Technical Director  
International Auditing and Assurance Standards Board  
545 Fifth Avenue, 14th Floor  
New York, New York 10017

Subject: International Auditing and Assurance Standards Board (IAASB) April 2011 Exposure Draft, *ISAE 3000 (Revised), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the IAASB's Exposure Draft. We support the Board's efforts to develop a principles-based standard that is capable of being applied to a broad range of subjects and provides a basis for subject-specific International Standards on Assurance Engagements (ISAE). We believe that this is a positive step in establishing guidance that will help auditors understand the special considerations involved in assurance engagements other than audits or reviews of historical financial information. We have comments regarding the consideration of computer-based information systems and fraud, in addition to responses to specific questions.

### **Responses to Specific Questions**

The Board is seeking views on a number of areas where the IAASB would like to obtain a better understanding on the topic of assurance engagements other than audits or reviews of historical financial information. We provide our specific comments below:

#### **Question 1: Nature and Extent of Requirements**

##### *Greater Clarity Is Needed Regarding Limited Assurance Engagements*

We support the IAASB's efforts in revising ISAE 3000 to conform to the clarity drafting conventions and to incorporate essential concepts from the Assurance Framework. However, we believe that the ISAE should clarify what is meant by the level of assurance being "meaningful to the intended users" and the procedures the auditor is expected to perform to determine whether the level of assurance is meaningful to the intended users, particularly with respect to defining a limited assurance engagement (paragraph 8(a)(i)(b)), determining the nature, timing, and extent of procedures performed (paragraph 42(a)), and summarizing the work performed (paragraph 60(k)). Alternatively, the Board might consider whether a different threshold is appropriate. For example, ISAE 3402 discusses, as a condition

of engagement acceptance, whether the scope of the engagement will not be so limited that it is unlikely to be useful to users.

It is important that the practitioner's responsibilities be clearly defined in a limited assurance engagement with respect to obtaining evidence to avoid misunderstanding of what is expected of the practitioner as well as the expectations of intended users. Accordingly, we also suggest that the Board consider requiring more extensive disclosure of the procedures performed in a limited assurance engagement to lessen the possibility that users would misunderstand the level of assurance that has been provided.

### *Clarify and Strengthen Linkage to ISAs*

We support the IAASB's intention of having the ISAE 3000 be a principles-based standard that is capable of being applied effectively to a broad range of underlying subject matters and one that is to provide a basis for current and future subject-specific ISAEs. While we support the inclusion of summarized relevant portions of the clarified International Standards on Auditing (ISAs), we believe that the linkage between the ISAEs and ISAs should be clarified and strengthened. We are concerned that, as drafted, differences in language and abbreviated explanatory materials when compared to the applicable ISAs may prove confusing to practitioners who have familiarity with the equivalent ISAs and not provide sufficient information to those who perform assurance engagements but not financial audits. The IAASB should seek ways to make the language in the ISAE conform to language in similar ISAs where appropriate, explain the relationships with similar ISAs where there are differences, and state whether the explanatory material in the ISAs may be considered in applying the ISAEs. Also, we believe that references to the related ISAs would be helpful.

For example, the explanatory paragraphs of such topics as *Sufficiency and Appropriateness of Evidence* and *Considerations when a Practitioner's Expert is Involved on the Engagement* may leave the reader with the sense that this guidance is all encompassing. However, additional guidance on these topics that could be helpful to the practitioner is provided by ISA 500 *Audit Evidence* and ISA 620 *Using the Work of an Auditor's Expert*. For example, the explanatory paragraph A94 in the proposed ISAE 3000 on the nature, timing, and extent of procedures states that procedures include: inspection, observation, confirmation, recalculation, re-performance, analytical procedures, and inquiry. Explanatory paragraphs A-14 through A-25 in ISA 500 could provide needed detail to the practitioner on what is meant by these procedures. Similarly, with respect to engaging an expert, the guidance in ISA 620 explanatory paragraphs A32 through A 39 provides detailed guidance regarding evaluating the work performed by an expert that could be used to supplement the guidance in paragraphs A119 and A120 in the proposed ISAE 3000. Other relevant topics in the proposed ISAE 3000, such as analytical procedures, testing, using the work of internal auditors, and consideration of subsequent events are covered in more detail by other ISAs, specifically: ISA 520 *Analytical Procedures*, ISA 610 *Using the Work of Internal Auditors*, and ISA 560 *Subsequent Events*.

*The Term “Restricted Use” Should Be Replaced with “Intended Users”*

While an assurance report may be restricted whenever it is intended only for specified intended users or for a specific purpose, this concept needs to be modified in the ISAE 3000 as it does not take into account the special requirements of audits and reviews of government entities. We are very concerned by the restricted use requirements and guidance in the proposed revisions to ISAE 3000 and International Framework for Assurance Engagements, because they are inconsistent with requirements and practice in the public sector accountability environment.

Audited financial statements and related auditor reports, such as value-for-money reports of government programs, are typically public documents. Government audits provide key information to stakeholders and the public and help maintain accountability for the use of public resources. Public access to these auditor reports is an important element of this process. Allowing intended users and responsible parties to restrict the use of assurance-related reports creates a practice problem for practitioners engaged and employed by government entities whose audit and assurance reports and related communications are often subject to public disclosure in accordance with laws or regulations.

In attempting to satisfy requirements for restricted use and public accountability, practitioners are in the position of having to issue reports that include the restricted-use wording, followed by a statement that their report is a matter of public record. Such wording is confusing and could lead the public to believe that restrictions on a report have been breached. Accordingly, we propose the following changes to paragraphs A18 and A147 of the proposed ISAE 3000 revision (additions and deletions are in bold):

A18. In some cases, intended users (for example, bankers and regulators) impose a requirement on, or request the appropriate party(ies) to arrange for, an assurance engagement to be performed for a specific purpose. When engagements use criteria that are designed for a specific purpose, paragraph 60(f) requires a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this may be achieved by **including a statement alerting readers of this fact in restricting the distribution or use of** the assurance report (see paragraph A146–A147).

A147. In addition to the alert required by paragraph 60(f), the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. **Depending on the engagement circumstances, for example, the laws or regulations of the particular jurisdiction,** ~~†~~This may be achieved by **restricting the distribution or use of including a statement alerting readers of this fact in** the assurance report. ~~While an assurance report may be restricted in this way, the absence of a restriction regarding a particular reader or purpose~~

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~~practitioner in relation to that reader or for that purpose. Whether a legal responsibility is owed will depend on the legal circumstances of each case and the relevant jurisdiction.~~

In addition to the above changes in the proposed ISAE 3000 revision, we suggest changing the wording in the following paragraphs of the proposed Revised International Framework for Assurance Statements as follows (additions and deletions are in bold):

### **Reports on Non-Assurance Engagements**

~~1623.~~ The practitioner and the responsible party may agree to apply the principles of this Framework to an engagement when there are no intended users other than the responsible party but where all other requirements of ~~the ISAs, ISREs or ISAEs~~ relevant Assurance Standards are met. In such cases, the practitioner's report includes a statement **indicating the report is intended solely for specific users, restricting the use of the report to the responsible party.**

### **Three Party Relationship**

~~3039.~~ In some cases, intended users (for example, bankers and regulators) impose a requirement for ~~on or request, the responsible party (or the engaging party if different) to arrange for,~~ an assurance engagement to be performed for a specific purpose. When engagements use criteria that are designed for specified intended users or a specific purpose, the assurance report includes a statement alerting readers to this fact. In addition, the practitioner may consider it appropriate to indicate that the assurance report is intended solely for specific users. Depending on the engagement circumstances, this may be achieved by including a restriction in including a statement to that effect. the distribution or use of the assurance report that limits its use to those users or that purpose. ~~Footnote 8: While an assurance report may be restricted whenever it is intended only for specified intended users or for a specific purpose, the absence of a restriction regarding a particular reader or purpose does not itself indicate that a legal responsibility is owed by the practitioner in relation to that reader or for that purpose. Whether a legal responsibility is owed will depend on the circumstances of each case and the relevant jurisdiction.~~

If our recommendations are not adopted, we ask that the IAASB include in the proposed revision of ISAE 3000 and accompanying Framework a new "Consideration Specific to Public Sector Engagements" section to explain that the restricted-use paragraphs are not necessarily applicable to public sector entities. This paragraph could be worded as follows (additions and deletions are in bold):

## *Consideration Specific to Public Sector Engagements*

**Some auditing and assurance standards may require auditors and practitioners to report on topics regarding, for example, a government entity's use of resources, internal control over operations, and compliance with laws and regulations and provisions of contracts and grant agreements. These reports, which are normally public documents, are generally in the public domain and therefore may not be subject to restricted-use requirements.**

### **Question 2: Levels of Assurance**

We recommend revising the proposed ISAE 3000 to clarify the following points:

- In paragraphs 8(a)(i)(b) and 42(a) of the proposed ISAE 3000, the level of procedures performed in limited-assurance engagements is described as “...*limited compared with that necessary in a reasonable assurance engagement but is planned to obtain a level of assurance that is, in the practitioner's professional judgment, **meaningful to the intended users***” (bolding added for emphasis). Determining the level of procedures based on the practitioner's perception of the information needs of the intended users is a new concept that is not included in either the extant ISAE 3000 or the International Framework for Assurance Engagements. We are concerned that this concept is not clear and will likely lead to inconsistent application by practitioners. As noted in our response to question 1, the ISAE should clarify what is meant by the level of assurance being “meaningful to the intended users” and the procedures the auditor is expected to perform to determine whether the level of assurance is meaningful to the intended users.
- The proposed ISAE 3000 has a new section entitled “*Forming the Assurance Conclusion.*” We support establishing these requirements as a separate section distinct from “*Preparing the Assurance Report*” in order to focus the practitioners' attention on these very important procedures. However, the wording used in these procedures in paragraph 56, specifically the reference to determining whether the reported outcome of the measurement or evaluation of the underlying subject matter is free from material misstatement, would not appear to be appropriate for a limited-assurance engagement. We recommend revising paragraph 56 to distinguish between reasonable-assurance engagements and limited-assurance engagements to clarify the differences in the assurance provided.

### **Question 3: Attestation and Direct Engagements**

We have no objections to the proposed changes in terminology from “assurance-based engagements” to “attestation engagements” as well as those from “direct reporting engagements” to “direct engagements.” We also agree with proposed ISAE

3000 definitions and explanation of differences between direct and attestation engagements.

#### **Question 4: Describing the Practitioner's Procedures**

We agree with the requirement to include a summary of the work performed as the basis for the practitioner's conclusion as it helps the intended users understand the nature of the assurance conveyed by the assurance report. It is consistent with the requirements described in paragraph 49(i) of the extant ISAE 3000, which notes that ISA 700 *The Auditor's Report on Financial Statements* and ISRE 2400 *Engagements to Review Financial Statements* provide guidance to the informative summary. As noted above in our response to question 1, we suggest that the Board consider requiring more extensive disclosure of the procedures performed in a limited assurance engagement.

As to the ISAE report content described in paragraph 60(i) and (j), we are concerned about having a statement that the practitioner applies certain specified quality control or ethical procedures. Mentioning "quality control" might raise questions about the types of quality control standards used by the practitioner; these quality control and ethical aspects of the assurance engagement should be understood as general requirements. Also, we believe that requiring practitioners to include statements on the quality control and ethical procedures the practitioners followed in their reports would be a cumbersome practice that adds little value to the reports, and that such statements could be confusing for report users.

#### **Question 5: Form of the Practitioner's Conclusion in a Limited-Assurance Engagement**

We agree that the proposed form of the practitioner's conclusion in a limited-assurance engagement will adequately communicate the assurance obtained by the practitioner, assuming that it also includes an expanded discussion of the procedures performed by the practitioner.

#### **Question 6: Applying the Standard**

We generally agree with the approach of the proposed ISAE 3000 regarding the application of the standard by competent practitioners, but we believe strongly that the proposed revised ISAE should be written to include application by **professional auditors** (bolding added for emphasis), including those in the public sector. The inclusion of the term "professional auditors" would be consistent with the terminology adopted by other standard setters, and would lead to a greater consistency of practice and terminology.

Additionally, the term "professional auditors" will facilitate implementation by public sector entities and encourage the continued collaboration between the

IAASB and the International Organization of Supreme Audit Institutions (INTOSAI), which for more than 50 years has provided an institutionalized framework to promote the development and transfer of knowledge, improve government auditing, and enhance professional capacities. This collaboration promotes consistency in practice, is in the public interest, and benefits both the auditing profession and those who rely on the assurance provided by auditors.

## **Other Comments**

### **Information Systems**

The standard should strengthen the language regarding the assurance of the integrity of the evidence generated by computer-based information systems. Information systems are widely used in the maintenance and generation of data. In some circumstances, it may not be possible for the practitioner to obtain sufficient, appropriate evidence without evaluating the effectiveness of information systems controls. Further, paragraph A50 explains that the quality of the evidence can be affected by inadequate information systems.

As part of obtaining an understanding of internal control, the practitioner should understand relevant information systems controls. We suggest the board add a reference to information systems control under the section “Obtaining Evidence” in paragraph 37 and its related explanatory paragraph A92. As revised, these paragraphs would read as follows (additions and deletions are in bold):

#### **Obtaining Evidence**

37. The practitioner shall obtain an understanding of the underlying subject matter and other engagement circumstances sufficient to design and perform procedures in order to achieve the objectives of the engagement. In the case of a reasonable assurance engagement, the practitioner’s understanding shall include an understanding of internal control over the preparation of the subject matter information **and related information systems controls** when relevant to the underlying subject matter and other engagement circumstances. (Ref: Para. A92–A93)

We also encourage the Board to consider adding a bullet to A92 that would read:

**A92. Obtaining an understanding of information systems controls, when information systems are used to generate evidence that is important to the engagement objectives, will help the practitioner evaluate the reliability of the evidence.**

### **Consideration of Fraud in an Assurance Engagement**

In addition to planning the engagement so that it will be performed in an effective

manner, practitioners should assess the risks of fraud that are significant within the context of the engagement objectives. We believe that the guidance should further develop its discussion of the practitioner's responsibilities relating to fraud in assurance engagements and consider providing a reference to ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, which delineates the practitioner's responsibility for assessing and dealing with the risk of fraud. If the Board adopts the suggested revisions, then paragraphs 35 and A80 could read as follows (additions and deletions are in bold):

### **Planning and Performing the Engagement**

35. "The practitioner shall plan the engagement so that it will be performed in an effective manner, including setting the scope, timing and direction of the engagement, and determining the nature, timing and extent of planned procedures, **including an assessment of the risks of fraud when relevant**, that are required to be carried out in order to achieve the objective of the engagement."

A80 "Planning involves the engagement partner... Examples of the main matters include (seventh bullet):

- **Assessing W**whether the risk of fraud is relevant to the engagement" **(Consider adding a footnote reference to: ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.)**

Under the section "Other Communication Responsibilities," the revised paragraphs 68 and A166 would read as follows (additions and deletions are in bold):

### **Other Communication Responsibilities**

68. "The practitioner shall consider whether, pursuant to the terms of the engagement and other engagement circumstances, any matter, **including fraud or suspected fraud**, has come to the attention of the practitioner that should be communicated with the responsible party, the measurer or evaluator, the engaging party, those charged with governance or others."

A166. "Matters that may be appropriate to communicate with the responsible party, the measurer or evaluator, the engaging party or others include fraud or suspected fraud, and in the case of an attestation engagement, bias in the preparation of the subject matter information." **(Consider adding a footnote reference to paragraphs 40 – 43 of ISA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.)**

We thank you for considering our comments on these important issues as the IAASB considers possible options to establish basic principles, essential



procedures, and guidance to practitioners for the performance of assurance engagements other than audits or reviews of historical financial information.

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