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Washington, DC 20548

June 21, 2019

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017

GAO's Response to the International Auditing and Assurance Standards Board's Consultation Paper, *Extended External Reporting (EER) Assurance*

Dear Mr. Botha:

This letter provides GAO's responses to questions on the International Auditing and Assurance Standards Board (IAASB) consultation paper entitled *Extended External Reporting (EER) Assurance*. GAO promulgates generally accepted government auditing standards (GAGAS), which provide professional standards for auditors of government entities in the United States.

We support the IAASB's efforts to ensure more consistent and appropriate application of International Standard on Assurance Engagements (ISAE) 3000 (Revised) for EER assurance engagements. However, we believe that the draft could benefit from additional examples and guidance.

While the draft covers only a partial list of challenges to practitioners, we believe many of the topics in the drafted chapters require professional judgment, specifically the topics of criteria, materiality, and the scope of the engagement. After the chapter related to professional skepticism and professional judgment is completed, there will be the potential for revisions to the chapters already developed that call for practitioners to exercise professional judgment.

The IAASB is seeking responses to a number of questions related to the draft guidance. Our responses to the questions follow in the 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 stylized with a large initial "J" and a long horizontal stroke at the end.

James R. Dalkin
Director
Financial Management and Assurance

Enclosure

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Responses to Questions on the International Auditing and Assurance Standards Board's (IAASB) *Extended External Reporting (EER) Assurance*

- 1. Does the draft guidance adequately address the challenges for practitioners that have been identified as within the scope of the draft guidance developed in phase 1? If not, where and how should it be improved?**

We believe that the draft has addressed most of the challenges within the scope of phase 1. However, until the guide is fully developed, it is not clear whether all of the challenges have been fully addressed. Many of the areas addressed in phase 1 require professional judgment, in particular, the topics of criteria, materiality, and the scope of the engagement. After the chapter related to professional skepticism and professional judgment is completed, there will be the potential for revisions to chapters developed in phase 1. In addition, we believe that the IAASB should reconsider the use of the word "may" in paragraph 128. We believe that if management uses a materiality process, the practitioner's review of the process would be integral to their evaluation of the criteria.

- 2. Is the draft guidance clear and easy to understand, including through the use of examples and diagrams, and the way terminology is used? If not, where and how should it be improved?**

We believe that the examples and diagrams in the draft are clear and understandable, but we believe that additional examples can be added to better clarify certain topics. Specifically, the draft could provide additional examples of "qualities" of elements outlined in paragraph 11b. In addition, the guidance on internal control systems for operations and on nonfinancial statement areas could be more robust. For example, paragraphs related to the effect on the overall engagement strategy when internal controls cannot be tested or relied upon should be expanded to provide examples related to non-financial areas. In addition, in paragraph 70 we suggest the IAASB consider adding another type of control activity related to accurate and timely recording of transactions. In chapter 9, we believe IAASB should add an example to illustrate how a practitioner would conclude that they have identified all appropriate assertions. The draft should also include examples for the accumulation of misstatements section in chapter 12.

- 3. Do you support the proposed structure of the draft guidance? If not, how could it be better structured?**

We support the structure of the proposed draft guidance as set forth in phase 1. As the chapters are developed to address the remaining challenges, the order of the chapters may need to be revised to move certain topics to the beginning of the audit guide, for example, professional skepticism and professional judgment.

- 4. Do you agree that the draft guidance does not contradict or conflict with the requirements or application material of International Standard on Attestation Engagements (ISAE) 3000 (Revised), and that the draft guidance does not introduce any new requirements?**

We are not providing comments responding to this question.

5. Do you agree with the new way that the draft guidance covers matters that are not addressed in ISAE 3000 (Revised)?

We believe that ideally some of the information from the draft guidance could be added to the application material for ISAE 3000 (Revised) to provide a more complete set of application material to the practitioner. The application material could provide examples of non-financial types of assurance engagements.

6. Do you agree that the additional papers contain further helpful information and that they should be published alongside the non-authoritative guidance document?

We believe that the additional papers provide helpful information, but they could be further clarified to identify intended users, particularly those that would use the background document. For example, the Key Factor Model for Credibility and Trust in Relation to EER could include additional information for small entities and practitioners.

7. In addition to the requests for specific comment above, the IAASB is also seeking comments on the matters set out below: a) stakeholder perspective; b) developing nations; and c) translation.

We believe that the guidance should more clearly articulate how it relates to ISAE 3000 (Revised). We believe that without this clarification there is the potential for confusion regarding the guidance's authority.