

441 G St. N.W.
Washington, DC 20548

March 15, 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
*Proposed International Standard on Related Services 4400 (Revised): Agreed-Upon
Procedures Engagements***

Dear Mr. Botha:

This letter provides GAO's comments to the International Auditing and Assurance Standards Board (IAASB) on *Proposed International Standard on Related Services 4400 (Revised): Agreed-Upon Procedures Engagements*. GAO promulgates generally accepted government auditing standards (GAGAS), which provide professional standards for auditors of government entities in the United States.

We note that governmental entities may have unique considerations when performing agreed-upon procedures (AUP) engagements because of the nature of government auditing, GAGAS reporting requirements, and laws and regulations.

We support the IAASB's efforts to modernize and clarify AUP engagements, including improving the clarity of AUP reports and specifying the format used in the standard. However, we believe that the proposed standard could benefit from further clarifying the following:

- the practitioner's use of professional judgment;
- the use of an expert and related reporting; and,
- the restriction of the AUP report.

The IAASB is seeking responses to 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. [unclear]". The signature is written in a cursive, flowing style.

James R. Dalkin
Director
Financial Management and Assurance

Enclosure

Responses to Questions on the International Auditing and Assurance Standards Board's *Proposed International Standard on Related Services 4400 (Revised): Agreed-Upon Procedures Engagement*

- 1. Has ED-4400 been appropriately clarified and modernized to respond to the needs of stakeholders and address public interest issues?**

We believe that ED-4400 has been improved and that the clarified format provides a clearer structure and format for the standard. There are some changes that still need clarification to ensure that ED-4400 requirements are clearly conveyed and appropriately applied. In the responses to questions below, we have identified a number of areas that need clarification.

- 2. Do the definition, requirement and application material on professional judgment in paragraphs 13(j), 18 and A14-A16 of ED-4400 appropriately reflect the role professional judgment plays in an AUP engagement?**

Based on our review of the definition presented in paragraph 13(j), we do not believe that it sufficiently considers professional skepticism or reasonable care. Both are described in part in paragraph A15, but the definition itself could include elements related to professional skepticism and reasonable care. In addition, we believe that the requirement in paragraph 18 should be modified to include information on reporting as part of the requirement where professional judgment is included. Finally, the use of "taking into account the circumstances of the engagement" is unclear; while it is partially addressed in paragraph A16, an additional paragraph in the application and other explanatory material to explain this would be helpful to the user.

- 3. Do you agree with not including a precondition for the practitioner to be independent when performing an AUP engagement (even though the practitioner is required to be objective)? If not, under what circumstances do you believe a precondition for the practitioner to be independent would be appropriate, and for which the IAASB would discuss the relevant independence considerations with the IESBA?**

We believe that there should be a precondition for a practitioner to be independent when performing an agreed-upon procedures (AUP) engagement. We believe that if a practitioner is not independent for an AUP engagement, risks exist that the practitioner may have independence issues in future audit and assurance engagements with the client. Application and other explanatory material should include this so that practitioners understand the risks.

- 4. What are your views on the disclosures about independence in the AUP report in the various scenarios described in the table in paragraph 22 of the Explanatory Memorandum, and the related requirements and application material in ED-4400? Do you believe that the practitioner should be required to make an independence determination when not required to be independent for an AUP engagement? If so, why and what disclosures might be appropriate in the AUP report in this circumstance.**

Based on the table in paragraph 22 of the Explanatory Memorandum, we expected there to be additional explanatory paragraphs related to independence for both agreeing to and reporting on the engagement. The majority of the discussion and related explanatory paragraph are focused in the reporting paragraph, rather than in the agreeing to the terms of the engagement paragraph. The International Auditing and Assurance Standards Board (IAASB) should consider incorporating a version of the table in paragraph 22 in the application and other explanatory material.

5. Do you agree with the term “findings” and the related definitions and application material in paragraphs 13(f) and A10-A11 of ED-4400?

We agree that the use of “findings” is appropriate when referring to the results of work. However, we believe that the definition and application and other explanatory material do not use consistent terminology and may result in confusion for users of the proposed standard. If the intention is to use “findings” throughout, then “findings” should be used in paragraph A10 instead of “results”.

6. Are the requirements and application material regarding engagement acceptance and continuance, as set out in paragraphs 20-21 and A20-A29 of ED-4400, appropriate?

We believe that the requirement in paragraph 20(b) should discuss the procedures as “expected” and the related findings as “potential related findings.” We believe that it would be useful to add a paragraph to the application and other explanatory material that addresses the potential scenario where a practitioner may be required to perform the AUP engagement because of a law or regulation, but the practitioner may not be able to meet the requirements in paragraphs 20 and 21.

7. Do you agree with the proposed requirements and application material on the use of a practitioner’s expert in paragraphs 28 and A35-A36 of ED-4400, and references to the use of the expert in an AUP report in paragraphs 31 and A44 of ED-4400?

We agree with the proposed requirements set forth in paragraph 28 of ED-4400. We would add an additional requirement in the agreeing to the terms of the engagement identifying the use of an expert, especially if the expert is external to the practitioner’s firm. This requirement should include whether the expert will be referred to in the AUP report. We believe that application and other explanatory material for the use of an expert for an AUP engagement should expand on how a practitioner would apply the requirements. Paragraph A35 in ED-4400 should be modified to provide broader examples and thereby a better understanding to practitioners. The inclusion of paragraph A36 is not necessary as it is a restatement of a requirement. We suggest the IAASB consider additional guidance for the proposed requirements on the use of an expert to further explain how practitioners are to apply the proposed requirements.

8. Do you agree that the AUP report should not be required to be restricted to parties that have agreed to the procedures to be performed, and how paragraph A43 of ED-4400 addresses circumstances when the practitioner may consider it appropriate to restrict the AUP report?

We believe that it is appropriate for an AUP report to not be restricted to parties that have agreed to the procedures to be performed. For example, in some cases a regulator may need a copy of the report though the regulator was not one of the parties that agreed to the procedures to be performed. As it relates to paragraph A43, we believe that the paragraph would be better placed in the requirements section rather than in the application and other explanatory material. It could be placed near paragraph 31. Also, in some jurisdictions the restriction of the distribution of the report may not be possible based on the jurisdictions’ laws and regulations. We suggest that the IAASB add that the report be used for its “intended purpose” rather than a restriction.

9. Do you support the content and structure of the proposed AUP report as set out in paragraphs 30-32 and A37-A44 and Appendix 2 of ED-4400? What do you believe should be added or changed, if anything?

We support the IAASB’s efforts to improve the content and structure of the proposed AUP report. We do not have any additional changes outside of those noted in the preceding responses.

- 10. In addition to the requests for specific comments above, the IAASB is also seeking comments on the matters set out below:**
- (a) Translations—recognizing that many respondents may intend to translate the final ISRS for adoption in their own environments, the IAASB welcomes comment on potential translation issues respondents note in reviewing the ED-4400.**
 - (b) Effective Date—Recognizing that ED-4400 is a substantive revision and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for AUP engagements for which the terms of engagement are agreed approximately 18–24 months after the approval of the final ISRS. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISRS. Respondents are also asked to comment on whether a shorter period between the approval of the final ISRS and the effective date is practicable.**

We do not have any additional comments on the translation of the standard. We believe that an 18 to 24 month period to implement the standard with the option for early implementation is appropriate. A shorter period for implementation is not necessary, as jurisdictions that want to implement earlier have the ability to do so under the early implementation option.