



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

June 26, 2019

Mr. Ken Siong  
Senior Technical Director  
International Ethics Standards Board for Accountants  
529 Fifth Avenue  
New York, NY 10017

**GAO's Response to the International Ethics Standards Board for Accountants' *Proposed Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised)***

Dear Mr. Siong:

This letter provides GAO's response to the International Ethics Standards Board for Accountants (IESBA) exposure draft, *Proposed Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised)*. GAO promulgates generally accepted government auditing standards (GAGAS), which provide professional standards for auditors of government entities in the United States.

We support the IESBA's efforts to clarify and improve the ethics standards as they relate to engagements under ISAE 3000 (Revised). We believe that there are a number of areas that could be improved, including the following:

- We believe that the code could further clarify definitions and provide additional examples.
- We believe that the code should require a more rigorous process related to management participation threat when assessing the skills, knowledge, and experience of client management taking responsibility for a non-assurance service.

The IESBA is seeking responses to a number of questions related to the draft code. 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](mailto: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

## Enclosure

### **Responses to Questions on the International Ethics Standards Board for Accountants' Proposed Revisions to Part 4B of the Code to Reflect Terms and Concepts Used in ISAE 3000 (Revised)**

- 1. Do you believe that the changes in the key terminology used in the Exposure Draft, including the definition of 'assurance client', are clear and appropriate for use in Part 4B?**

We believe that some of the changes in the key terminology in the exposure draft should be clarified, including the possible inclusion of examples in the definitions. Specifically, the definition of 'assurance client' is not clear regarding the assurance client for direct engagements. The definition should be clearer and International Ethics Standards Board for Accountants (IESBA) should consider including an example for a direct engagement. Also, the definitions of subject matter information and underlying subject matter can be further clarified and would benefit from examples, so a user can clearly distinguish between the two terms.

- 2. Do you have any comments on the application of the IESBA's proposals to the detailed independence requirements and application material as explained above and summarized in the appendix?**

The reworking of the explanatory material in paragraphs R900.19 A1 into R900.14 A2 should retain an example so that users can understand when this situation can occur. We believe that the code should not allow practitioners to modify independence requirements by issuing a report that includes a restriction on use and distribution, especially with direct reports and the potential for multiple responsible parties.

- 3. Do you have any comments on the other proposed changes, including on the consistency of terms and concepts in Part 4B in relation to the text of ISAE 3000 (Revised)? If so, please specify the area of inconsistency and suggest alternative wording.**

We are not providing comments responding to this question.

- 4. Are there any other matters that you consider should be addressed with respect to the alignment with ISAE 3000 (Revised) in Part 4B or in other material, for example in an IESBA Staff publication? If so, please provide sufficient explanation, including practical examples of the matter where available.**

We believe that the requirements and application material regarding management participation threat should be more rigorous. In particular, the requirements outlined in paragraph R950.7 related to what the practitioner should ensure that client management has done should be enhanced to require that management be able to perform the service. We do not believe the assessment of skills, knowledge, and experience of the individual overseeing the service provides sufficient support when taken together with the other two items to ensure that practitioner is not assuming a management responsibility given the level of rigor generally applied in such assessments.

- 5. Do you agree with the proposed effective date? If not, please indicate why not and explain your reasoning.**

We support the proposed effective date, if the IESBA is able to maintain its timeline.

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

We do not have additional comments beyond those provided in the previous questions