



**From:** Lau Dillard, Lori [Redacted]  
**Sent:** Wednesday, June 28, 2017 10:51 AM  
**To:** Yellow Book Comments  
**Cc:** Lau Dillard, Lori  
**Subject:** GAO 2017 Exposure Draft Comments

The Postal Service Office of Inspector General reviewed the exposure draft and addressed the questions posed in the document. The questions are listed below, followed by our response. We did not address punctuation, formatting, etc. We appreciate the opportunity to comment on the U.S. Government Accountability Office’s (GAO) 2017 exposure draft of *Government Auditing Standards*. If you have any questions, my contact information is below.

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1. Generally accepted government auditing standards (GAGAS) is presented in a revised format. This is intended to allow auditors to quickly identify requirements and application guidance related to those requirements. In addition, certain topics are regrouped within the chapters.

**Please comment on how the revised format of GAGAS affects the organization and readability of the standards.**

[OIG’s Response:](#)

The new format of enclosing GAGAS requirements in text boxes throughout the publication provides a clearer understanding of what auditors must do. The application guidance following each set of requirements provides a clear delineation of what auditors may perform. Also, paragraph 1.23 is a useful addition, defining terms used in the publication.

We suggest adding an index, like that of prior editions, that allows readers to quickly locate discussions on specific topics such as abuse, accountability, and many others.

2. In chapter 3 (“Ethics, Independence, and Professional Judgment”), additional requirements and guidance are provided concerning the provision of nonaudit services to audited entities, including further explanation of the responsibility to ensure that management of the audited entity possesses the appropriate skills, knowledge, and experience to oversee the nonaudit service and expanding discussion of nonaudit services that should be considered threats or impairments to an external auditor’s independence. (various paras. 3.67 through 3.101)

**Please comment on whether the revisions related to nonaudit services sufficiently and clearly explain what is required and prohibited under GAGAS.**

[OIG’s Response:](#)

The proposed revisions to nonaudit services appear to sufficiently and clearly explain the requirements and prohibitions under GAGAS.

3. In chapter 4 (“Competence and Continuing Professional Education”), GAGAS discusses the levels of proficiency required for the roles on an engagement as well as a description of the tasks generally expected to be performed by auditors in these roles. (paras. 4.09 through 4.10)

**Do these roles and descriptions clarify the competence required of auditors conducting engagements in accordance with GAGAS? Is the level of proficiency expected for each of these roles clear?**

## OIG's Response:

The roles and descriptions of the auditors are reasonably put forth. For each of the three levels of auditors (entry level, supervisory, and partners and directors), the text respectively associates basic, intermediate, and advanced levels of proficiency. However, descriptions of the levels of proficiency would enable the reader to better understand what is needed at the three auditor levels.

Paragraphs 4.02 and 4.03 appear redundant. Paragraph 4.02 states auditors at the time of the assignment are to collectively possess the competence needed to address the engagement objectives and perform their work in accordance with GAGAS. Paragraph 4.03 states auditors at the time of assignment are to possess the competence needed for their assigned roles.

Paragraph 4.15 states entry-level staff should obtain GAGAS Qualification by the end of their first full 2-year CPE period. The text should reference paragraph 4.45 that defines a 2-Year CPE period.

Paragraph 4.16 requires that CPE providers should include, in the course content, wording indicating the course's purpose is to fulfill the GAGAS Qualification CPE requirement. We believe that wording will be helpful because it clearly identifies courses meeting GAGAS requirements and will aid in planning and taking training.

We also believe the new 4-hour requirement for GAGAS topics in paragraph 4.17 will be beneficial as it helps ensure those performing audits in accordance with GAGAS have obtained an understanding of GAGAS.

Paragraph 4.21 states, "The subject matter categories for the 4-hour and 24-hour requirements **may also be used** to satisfy the 56-hour CPE requirement." This statement might be misleading because it suggests there might be as few as 32 (56 minus 24) CPE hours needed once the 4- and 24-hour requirements are met. A suggested revision would be to say any **excess** over the 4- and 24-hour requirements **could be used** to satisfy the 56-hour requirement.

Paragraph 4.28 discusses CPE requirements for those commencing GAGAS audits after the start of their organization's 2-year CPE period. The text should reference paragraphs 4.38 and 4.39 that provide more information on prorating CPE requirements.

Paragraphs 4.36 and 4.37 discuss CPEs awarded to speakers, instructors, and discussion leaders at programs that qualify for CPE, and published articles, books, or materials, written by auditors, on subjects and topics that contribute directly to professional proficiency to conduct engagements. There should be discussion as to who (including self-certification) or what organization is responsible for determining and awarding the CPEs. Also, the text should mention if such work qualifies for the 24-hour and 4-hour requirements.

4. Chapter 4 ("Competence and Continuing Professional Education") includes a requirement for auditors to complete at least 4 hours of continuing professional education (CPE) in GAGAS topics ("GAGAS Qualification"). This 4-hour requirement is a subset of the 24-hour CPE requirement and needs to be completed each time a GAGAS revision is issued. Application guidance provides examples of the types of topics that would qualify as GAGAS topics. (paras. 4.15 and 4.23)

**Please comment on any additional topics that could be included in the 4-hour GAGAS CPE requirement or other requirements that would enhance auditor proficiency in GAGAS.**

## OIG's Response:

Additional topics in the 4-hour GAGAS CPE requirements could include:

- How to build GAGAS requirements into audit planning, fieldwork, and reporting, and
- Quality control systems for small OIG offices.

5. The content from the GAGAS guidance document on CPE (GAO-05-568G) is largely incorporated into chapter 4. We plan to retire the guidance document when the new GAGAS is issued. (paras. 4.26 through 4.50)

**Is there any additional application guidance that should be included in the GAGAS revision to enable auditors and audit organizations to effectively implement the CPE requirements given the planned retirement of the CPE guidance document?**

## OIG's Response:

Suggest adding a description for an Experienced-level between Entry and Supervisory in Section 4.10.

6. In chapter 5 (“Quality Control and Peer Review”), the sections on quality control and external peer review are expanded to harmonize with other standards and promote consistency in practice across the range of GAGAS auditors.

**Are the changes to the quality control and external peer review sections appropriate and reasonable?**

OIG’s Response:

The changes to the quality control and external peer review sections appear appropriate and reasonable.

With respect to the audit organization’s quality control system, paragraph 5.56 discusses monitoring of work done. The paragraph discusses selection of individual engagements for internal review. In determining the scope, the paragraph states the review may take into account conclusions of a peer review or regulatory inspections. We suggest adding conclusions of prior internal reviews.

Paragraphs 5.88 through 5.90 discuss staffing of the external peer review team. Because auditors change employers within the federal OIG community, we believe GAGAS should identify a minimum amount of time that elapses before an auditor can review work of the former employer and should not review work done by that auditor.

7. In chapter 5 (“Quality Control and Peer Review”), peer review requirements are categorized by requirements for (1) audit organizations affiliated with recognized organizations and (2) other audit organizations. (paras. 5.63 through 5.113)

**Are the peer review requirements for each category of audit organization clear?**

OIG’s Response:

The peer review requirements for each category of audit organization are clear.

8. Chapter 7 (“Standards for Attestation Engagements and Reviews of Financial Statements”) is expanded to incorporate by reference Statement on Standards for Accounting and Review Services No. 21, section 90, *Review of Financial Statements*, and includes additional requirements and guidance for reviews of financial statements conducted in accordance with GAGAS. (paras. 7.68 through 7.80)

**Please comment on the expanded requirements and application guidance.**

OIG’s Response:

The expanded requirements and application guidance appear reasonable.

The draft adds new requirements for auditors to perform audit procedures ascertaining the potential effect on the audit objectives if the auditors become aware of waste that could be significant to the audit objectives, and 2) report waste if it is material. However, there is no mention of whether auditors should initially test for waste.<sup>[1]</sup> Auditors can identify waste during their audits, but the draft should make clear, as with abuse, the auditor’s responsibilities regarding initial tests for waste.

9. In chapter 8 (“Fieldwork Standards for Performance Audits”), internal control considerations are expanded to reference the 2014 *Standards for Internal Control in the Federal Government* and *Internal Control – Integrated Framework*. (paras. 8.37 through 8.65)

**Do these sections clearly describe ways auditors assess internal control on performance audits?**

OIG’s Response:

The sections are clear in describing ways auditors assess internal control on performance audits. There are some parts, however, that need more information to help ensure the reader’s understanding.

Paragraph 8.38 discusses factors that may be considered when assessing the significance of internal control to the audit objectives. Sub-paragraph 8.38.c. mentions “the three categories of entity objectives”. The statement should reference, perhaps by footnote,

an explanation of the categories. Sub-paragraph 8.38.d. mentions “the five components of internal control”. The statement should refer the reader to an explanation of the five components or direct the reader to a website identifying the COSO framework. By including explanations or references for 8.38.c. and 8.38.d., the reader’s understanding of the text will be enhanced.

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<sup>[1]</sup> Unlike waste, the draft states there are no requirements for auditors to test for abuse.