



Buikema
Government Finance Officers Association
203 North LaSalle Street, Suite 2700
Chicago, Illinois 60601-1210
[REDACTED] fax: 312.977.4806

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Mr. James Dalkin
Director, Financial Management and Assurance
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Dalkin:

We are writing to you on behalf of the Government Finance Officers Association of the United States and Canada (GFOA) in response to the Government Accountability Office (GAO) 2017 Exposure Draft (ED) of *Government Auditing Standards*. This response was prepared by GFOA's standing Committee on Accounting, Auditing, and Financial Reporting (CAAFR), all of whose members are active government finance officers. The following is the CAAFR's response to the questions listed in enclosure II of the ED.

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.

Response: GFOA has no objections to the proposed revised

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.

Response: GFOA has no objections to the proposed revisions in chapter 3.

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?

Response: The levels of staff as described in 4.10 of entry level, supervisory and partners and directors are too broad and do not appear to take into account the levels and roles of state auditors that perform audits of state agencies and local governments. For example, the supervisory level as described in paragraph 4.10.b appears appropriate for an “in-charge” or “senior” level auditor. It is unclear if the supervisory role includes the audit “manager” on an engagement. An audit manager should be able to deal with a high level of ambiguity, complexity, and uncertainty and have an advanced level of proficiency. We recommend that the GAO expand the levels of staff in paragraph 4.10 to be in line with accounting firms structures and take into account staff levels and roles within state auditor offices and provide additional clarification as to the competence required for each level of staff. We also recommend that the GAO define levels of proficiency required, such as the educational and/or experience 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.

Response: GFOA has no additional topics or requirements to suggest.

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?

Response: GFOA has no additional guidance to suggest.

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?

Response: The proposed changes to quality control and external peer review appear reasonable.

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?

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.

Response: The changes on expanded requirements appear reasonable.

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?

Response: The proposed changes appear reasonable.

10. Other Comments

GFOA supports the GAO in its efforts to eliminate waste and abuse in government. However, the definition of waste as presented in paragraph 6.17 is highly subjective; each audit organization will have its own opinion as to what constitutes waste. We are concerned that audit organizations will err on the side of caution and begin to respond to immaterial perceived forms of waste. Governments would have to dedicate the limited resources they have to respond to allegations of waste, the cost of which would outweigh the desired benefits of the proposed requirement. We feel that paragraph 6.17 should be removed from the ED and that the GAO should create one clear definition of waste and abuse to correlate to the requirement in paragraph 6.16.

If paragraph 6.17 remains, we recommend the following phrase be included in paragraph 6.17, similar to the phrase used in paragraph 6.18: “Because the determination of waste is subjective, auditors are not required to perform procedures to detect waste in financial audits.”

If you have any questions regarding our position, please contact GFOA’s Acting Director of Technical Services, Todd Buikema [REDACTED]

Sincerely yours,



Melinda Gildart, Chair
Committee on Accounting, Auditing,
and Financial Reporting



Melanie Seale, Vice-chair
Committee on Accounting, Auditing,
and Financial Reporting