From: Stephen Hopkins
To: Yellow Book Comments
Subject: GAS 2017 Exposure Draft Comments
Date: Monday, July 03, 2017 1:45:13 AM
Attachments: GAS exposure draft comments - 07-03-17.pdf

GAO

Please find attached my listing of specific comments in relation to the GAS 2017 Exposure Draft. I was not sure whether my actual comments needed to be included on firm letterhead or whether simply a listing of the comments could be provided. As such, I have only provided the listing of comments. If these comments need to be included on firm letterhead please let me know. Thank you.

Stephen T. Hopkins, CPA

3.47.a

The wording of this potential self-review threat situation seems to indicate that an audit organization cannot assist with the creation of internal control policies and procedures or review policies and procedures designed by the audited entity. If management is ultimately responsible for the acceptance and implementation of in this case internal control policies and procedures it seems unnecessary to create the impression that the assistance with the creation or review of such procedures would potentially create a self-review threat.

3.47.b

The wording of this potential self-review threat situation seems to indicate that if an audit organization for example maintains a depreciation schedule for an audited entity through information or guidance provided by the management of the audited entity that it would create a potential self-review threat situation. If management is taking responsibility for the financial statements which include the capital asset information that may be maintained by an audit organization it seems unnecessary to create the impression that this service would potentially create a self-review threat.

3.49.e

Your inclusion and wording of this potential familiarity threat seems to indicate that there is an underlying desire for this document to impose some type of engagement duration limitation for an audit organization in performing audit services for an audited entity. The problem with the wording of this item is that it doesn't necessarily take into consideration the situation whereas a sole practitioner has performed auditing services for an audited entity for a number or years. This item would seem to create a highly subjective situation whereas a peer reviewer may be performing a peer review and selected an engagement that has been going on for a number of years. The sole practitioner may see no issues in relation to independence of mind or appearance and therefore make no reference in the planning workpapers as to his or her consideration of this situation as a familiarity threat. The peer reviewer may subjectively disagree and determine that an inadequate system of controls is in place at the audit organization potentially resulting in a non pass report. If this document is going to attempt to indicate that the length of an audit organization audited entity relationship may present a familiarity threat then some type of consideration period of time should be included to prevent any potential documentation of consideration disagreements.

3.51.d

The wording of this potential management participation threat seems to indicate that an audit organization can not assist in the preparation of a corrective action plan if requested by the audited entity. From the point of view of an audited entity, the audit organization has far greater knowledge of what type of corrective action plan would need to be implemented in order to correct the particular finding. If management is ultimately responsible for the acceptance and implementation of any corrective action plan it seems unnecessary to seemingly limit the audit organization's ability to assist in the actual creation of such a plan.

3.67 - 3.69

These sections are labeled Identifying Prohibited Nonaudit Services though the identification of the actual types of prohibited nonaudit services seems vague whereas I believe the current document specifically lists types of prohibited services. Item 3.69 seems to indicate that only management responsibilities performed by the audit organization would be a prohibited nonaudit service as the performance of the responsibilities would create a management participation threat. It would seem if this were the case then a specific reference to section 3.73 should be included in section 3.69 to correlate the type of prohibited nonaudit service with examples of these services. The ultimate question that I come away with from reading this section is are there any other types of nonaudit services that would be considered specifically prohibited in accordance with this document and if so why wouldn't they be grouped with section 3.69 or appear immediately after this section.

3.77

Though the four examples of potential safeguards, that could be implemented to reduce a threat to independence related to a nonaudit service to an acceptable level, are reasonable in specific situations they seem to be lacking any type of reasonable safeguard example in a situation where a sole practitioner is performing the nonaudit services. It would seem that the most common nonaudit service that is being targeted by these sections of the document is the situation where the audit organization assists with the preparation of the audited entity financial statements. It seems as though the document is attempting to drastically reduce the situations in which this type of nonaudit service does not impair independence especially for sole practitioners who routinely perform this type of nonaudit service.

The potential safeguards described in section 3.77.a and 3.77.b wouldn't even be options for a sole practitioner. The potential safeguard described in section 3.77.c seems to create a redundancy in that Chapter 4 of this document discusses the level of competence which is needed to perform the assigned roles in an audit engagement. If a sole practitioner possesses an acceptable level of competence in order to assist an audited entity with the nonaudit service of the preparation of its financial statements then why would a seemingly redundant level of review be an adequate safeguard by having another individual or audit firm who also possesses an acceptable level of competence perform the same function. The other problem that this potential safeguard creates is the situation in which the sole practitioner or audit organization disagrees with the results of a review by another audit organization. The preparation of financial statements including the notes to those financial statements require a level of professional judgement based on the interpretation and correct application of applicable generally accepted auditing principles. If the management of an audited entity and the audit organization that assisted in the preparation of the financial statements take a certain position on the applicability of certain generally accepted accounting principles and then another audit organization disagrees with those assertions based on their professional judgement then what did the review by the other audit organization actually accomplish?

The audit organization, or in this case sole practitioner, which assisted in the preparation of the financial statements should have a system of quality controls in place to ensure that any nonaudit services provided were competently provided in accordance with all applicable financial reporting standards which are being referenced in the applicable and included Independent Auditors Report. If that system of quality control includes reviewing and completing preparation and disclosure checklists provided by third party organizations then why wouldn't that review and completion process be an adequate safeguard in comparison to another audit organization performing the exact same review and completion process. Isn't this quality control system the basis for the peer reviews currently required to be performed every three years? If so then why is the document in effect creating an annual process to be followed by a sole practitioner or audit organization which is comparable to the required peer review process.

In addition, in accordance with section 3.67, if the auditor has adequately documented his or her consideration of management's ability to effectively oversee the nonaudit services to be provided and management accepts responsibility for the results of those services then shouldn't that acceptance of responsibility by management be another acceptable safeguard?

Finally, the potential safeguard described in section 3.77.d doesn't really seem as though it would really be a safeguard as opposed to an attempt by the document to encourage nonaudit services such as the assistance with the preparation of financial statements to be contracted to another audit firm thus once again drastically reducing the situations in which this type of nonaudit service does not impair independence. In my opinion, the only way that another audit firm would take responsibility for the nonaudit service of assisting in the preparation of financial statements would be for the other audit firm to actually prepare the financial statements.

3.89

This section seems to be creating a presumptively mandatory requirement as described in section 2.02 in that auditors should conclude that any services related to preparing financial statements (or accounting records) creates significant threats to auditor independence. As such the threat needs to be documented as well as the safeguards applied to eliminate or reduce the threat to an acceptable level or decline the engagement. My concern with this presumptively mandatory requirement once again relates to the only provided safeguard examples included in section 3.77. If the purpose of this document is effectively to eliminate the ability of a sole practitioner to assist in the preparation of financial statements as a nonaudit service to an audited entity then this should be clearly indicated as opposed to seemingly being implied. Otherwise, a additional safeguarding example should be included in relation to sole practitioners that perhaps reads something like:

3.77.e. Documenting the applicable portions of the audit organization's quality control system that apply to competently assisting in the preparation of financial statements and then providing adequate assurance and documentation that the required procedures were followed.