

Comments on the Yellow Book Exposure Draft 2017

Commenter/ Section	General – Including Omissions/Gaps	Chapter 1: Government Auditing: Foundation and Principles by the Use an Application of Generally Accepted Government Auditing Standards	Chapter 2: General Requirements for Complying with Government Auditing Standards	Chapter 3: Ethics, Independence and Professional Judgment	Chapter 4: Competence and Continuing Professional Education	Chapter 5: Quality Control and Peer Review	Chapter 6: Standards for Financial Audits	Chapter 7: Standards for Attestation Engagements and Reviews of Financial Statements	Chapter 8: Fieldwork Standards for Performance Audits	Chapter 9: Reporting Standards for Performance Audits
M Binder	<p>Organization: It appears that many related topics have now been fragmented or splintered into different sections. This makes the total presentation less coherent and less useable. We suggest that perhaps Chapters 1 and 2 be combined, and Chapters 3 and 4 be combined. Chapter 5 should be moved to either an appendix or as a separate document. A serious omission and gap is created by not addressing Follow-up in the Standards. P.126; 9.07 says one of the purposes o the report is to facilitate follow-up, but after that the Yellow Book is totally tacit about follow-up. The life of an audit report Begins then recommendations are agreed to for action.</p>				<p>This chapter needs to explicitly apply to heads and deputies of professional governmental audit organizations. Anyone who has managerial leadership in the planning, review, messaging and reporting of audits and audit reports should comply with the CPE requirements. This should also apply to legal counsel if they have influence over the audit product beyond legal sufficiency or editorial review – and where they make interpretations of the Standards. We are aware of a number of cases where IGs and Deputy IGs have excluded themselves from compliance with CPE requirements – with the help of Counsel providing</p>	<p>We suggest that Chapter 5 be moved to an appendix or as a standalone governmental audit document – and include a checklist similar to the one used by the CIGIE for peer review of OIGs. Also, we suggest that a separate sample of reported performance results or the aggregate amounts reported be tested and validated to ensure accuracy and integrity of reporting. From first-hand experience, we believe that accuracy in public reporting of audit results is a significant issue.</p>	No Comments		<p>As part of the risk assessment process, auditors should assess the external risks and their potential effect as well as internal risks. While these risks are out of the control of an organization, they may have an extreme impact on an organization and should be acknowledged as part of the findings and recommendation to reduce vulnerability and manage those risks.</p>	

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	<p>While the action is a management responsibility, there are no standards for the auditors' role in performing follow-up to ensure proper accountability for action on agreed-to recommendations. When management agrees to take action – it forming a contract of intent and obligation. Without agreed to action, the audit report has not traction and little or no value. It is a wasted effort. While the audit organization has not operational authority to compel agreed to action, management has an obligation to act that which it must account for. Therefore the Standards should compel the audit organization to perform subsequent follow-up with separate independent reporting on the status</p>				<p>justification, although the members of Counsel themselves were not CPE compliant. This is especially important as with greater frequency, non-auditors are appointed to lead professional audit organizations. It undermines the integrity and credibility of an audit organization to have non-auditors who also fail to comply with, or explicitly exclude themselves from the CPE compliance requirement necessary to meet the basic competency level they represent to the public and decision makers by influencing any aspect of the report, defending and signing the report. Failure to comply with the CPE requirement by anyone who signs the</p>					

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	<p>of agreed to actions – or verification of management claims of completed actions – as agreed to. Without this very important step in the Standards, the work of auditor and audit organizations have no more authority or influence than advisory comments or suggestions, optional for action the discretion of action officials. This renders all the work of the auditors and the audit organization under the Standards, and therefore the Standards themselves useless without demonstrated value. To ensure accountability for the full value and impact of quality audit work, in compliance with the Standards, the Standards should or must extend beyond the audit report to prove adequate monitoring and</p>				<p>reports and is accountable for its contents, undermines professional integrity of the specific audit and the entire audit organization.</p>					

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	<p>accountability reporting on the progress and status of actions on agreed to recommendations – unless it is further agreed between the audit organization and management that the originally agreed to action is no longer relevant, cost efficient, effective or meaningful. This would represent a very significant change to the government audit industry that has been sorely needed to give greater value to quality audit work.</p>									
Dennis Morse		The 2017 Draft Revision of Yellow Book, in section 1.09, sub section (a),		Chapter 3 includes requirements for providing nonaudit services						

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		<p>states that the Inspector General Act of 1978 requires that all of their audits, and those done by private auditors for them, comply with GAGAS. This, I believe, has always been the case. However, the audit work performed by Auditors assigned to work on a Fraud Task Force charged with assisting the U.S. Department of Justice, United States Attorney’s Office, with investigating and prosecuting fraud; most often is greatly hindered by forced compliance with these rules. The difference among the various types of audit activity is that the Fraud Task Force</p>		<p>for an entity for which the audit organization conducts a GAGAS engagement. GAGAS also does not cover three-party or two-party professional services arrangements provided by auditors in government.”. Conversely, the 2007 Yellow Book, in Section 1.33, describes nonaudit services as simply, “professional services other than audits”. And, in Appendix I, Section A3.03, identifies an example of nonaudit Services as, “k. providing audit, investigative, and</p>						

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		<p>audit addressees a criminal enterprise, which, by its nature, operates outside of accounting guidelines and regulations. The Fraud Task Force audit activity also assists in the identification of, and aids in the quantification of, fraudulent schemes. Past Yellow Books have recognized this unique and different auditing mission and have allowed for its continued operation by defining it as “non-audit services”. The 2017 Draft Revision of the Yellow Book does recognize this 4th type of audit service in Section 1.22; but has changed its definition from those in prior Yellow</p>		<p>oversight-related services that do not involve a GAGAS audit (but which could be performed as an audit, if the audit organization elects to do so), such as (1) investigations of alleged fraud, violation of contract provisions or grant agreements, or abuse; . . .”.</p> <p>The 2011 Yellow Book, in Section 2.12, defines nonaudit services as “professional services other than audits or attestation engagements.” The description of 2nd and 3rd party services, contained</p>						

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		<p>Book Revisions. This definition change could very well hinder future Fraud Task Force efforts. This section reads, “GAGAS does not cover nonaudit services, which are defined as professional services provided on behalf of management at audited entities. Therefore, auditors do not report that the nonaudit services were provided in accordance with GAGAS (these comments also pertain to Chapter 3)”</p>		<p>in Section 3.80 of the 2017 Yellow Book revision, maybe intended to address the Fraud Task Force environment; but, if so, the wording of this section is unclear and misleading. There is no definition provided for the term “governing body”, and the verbiage in this section seems to severely limit the role of the auditor; if, in fact, it even applies to the Fraud Task Force. The incorporation of the audited entity’s management as having a role in nonaudit services; coupled with the confusing descriptions of</p>						

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				<p>limitations placed on the provision of nonaudit services, appear to “water down” the effectiveness of this type of audit service.</p> <p>While the intent in this 2017 Yellow Book revision may not be to limit the audit agency’s role in the Justice Department’s criminal and civil investigation and prosecution efforts, neither does it clearly incorporate them as having a such a role. In today’s legal environment, Defense Attorneys are far more attuned to government rules, regulations and functions. A Yellow Book that</p>						

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				<p>does not clearly define an approved function for auditors assigned to the Fraud Task Force could result in vital audit activity being denied acceptance as evidence in a court proceeding. (These comments relate to similar comment on Chapter 1)</p>						
Ronald Huritz					<p>To augment the topic of auditor competence, we suggest that the revised standards include, for the first time, examples of recommended certifications that auditors should possess or seek to obtain. The statement in Standard 4.03 makes only a vague reference to "competence", but</p>					

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					<p>does not illustrate any type of evidence that would support such competence.</p> <p>"4.03 The audit organization's management must assign auditors who at the time of assignment possess the competence needed for their assigned roles."</p> <p>Considering the number of audit-related certifications available today, encouraging audit personnel to obtain one or more of these designations would strengthen the competence requirement. Some examples are: Certified Internal Auditor (CIA); Certified Government Audit Professional (CGAP); Certified Inspector General Auditor</p>					

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					<p>(CIGA); Certified Information Systems Auditor (CISA); and Certified Internal Controls Auditor (CICA).</p> <p>For years, framers of the GAGAS standards have deliberately avoided including any of these certifications as examples of the level of academic achievement that would satisfy the competence requirement. We believe the time has come to correct that deficiency.</p>					
Horace Kreitzman	The revised format is easy to follow and the new Chapter 1 gives a fuller explanation of the types of audits government auditors perform and sets the stage for what follows. I especially like that the first paragraph			The detailed explanation of what is required and what is prohibited goes a long way in clearing up the ambiguity concerning non-audit services	The exposure draft makes clear the levels of proficiency required of the various levels of audit management by delineating the roles and tasks performed by each.	The changes to the quality control and external peer review sections are appropriate and reasonable. These changes give the auditor a more thorough understanding of the subject. The peer review		These expanded requirements and associated application guidance will help the auditor better perform attestation engagements and reviews of financial statements, and	The expansion of material regarding internal control will be very helpful for new auditors in their understanding of how internal control issues should be examined in	

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<p>of each chapter gives the objectives of the chapter.</p> <p>Overall, we especially like the way GAGAS requirements are delineated by enclosing them in a box, thereby separating the requirement from the application guidance for the requirement.</p>						<p>requirements for each category of audit organization are clear.</p>		<p>especially in the performance of compliance reviews.</p>	<p>performance audits.</p>	