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July 5, 2017

United States Government Accountability Office (“GAO”)

Mr. Gene L. Dodaro

Comptroller General of the United States

441 G Street N.W.

Washington, D.C. 20548

Subject: The proposed changes to *Government Auditing Standards*, (“Yellow Book”) GAO-17-313SP

Dear Mr. Dodaro:

This letter serves as our firm’s responses to the questions contained in Enclosure II of the April 2017 exposure draft entitled *GAO-17-313SP Government Auditing Standards Exposure Draft* which was issued by the GAO. We support your office’s objective to enhance and clarify the existing guidance and recognize the importance of reevaluating how these standards can be improved in an environment that is rapidly changing. Through reassessment and collaboration we capitalize on the experience of practitioners and improve the consistency in the practical application of auditing standards. We appreciate the opportunity of being a part of this process.

Below we have summarized the Discussion items topics and our responses/comments.

#### **Discussion Item No. 1**

*Comments regarding the revised format of GAGAS as it affects the organization and readability of the standards:*

Our review of the revised format notes that the exposure draft shows a more condensed selection of topics and fluidity among general principles through the application guidance. However, the GAO may consider expanding certain (sub) topics in the table of contents to allow for readers to find key subject matters that were condensed and moved between chapters – or consider placing a “cross referencing guide” to help navigate between the December 2011 version and the 2017 revision.

#### **Discussion Item No. 2**

*Comments regarding the revisions related to nonaudit services (paras. 3.67 through 3.101):*

We observed that in paragraph 3.88 and 3.89 the word “should” rather than “must” or “is required” was utilized, and this is a point of ambiguity in practical application of Yellow Book guidance when compared with other authoritative guidance. Where it is intended the GAO is expressing a requirement that is inflexible we believe the language must state as such.

With regards to paragraphs 3.67 through 3.101 – we noted that the exposure draft illustrated various practical situations (starting at page 30 paragraph 3.88) with a follow up application guidance for each scenario. Although we find that illustrations themselves are clear and cover a wide range of nonaudit services that could occur in practice, we feel that the table of contents should provide a subtopic or section that highlights where a practitioner could reference them.

Currently the table of contents refers to “Provision of Nonaudit Services to Audited Entities” page 26, then skips to “Documentation” page 34.

### **Discussion Item No. 3**

*Is the competence required of auditors clear and level of proficiency expected for each role clear? (paras. 4.09 through 4.10)*

Paragraph 4.09 discusses what a firm “may” consider (not require) as competency for three basic level of roles and what each of those roles should be able to perform, however, we felt that some of the role criteria was subjective in nature. For example – supervisory roles stated to perform engagement procedures characterized by moderate levels of ambiguity, complexity and uncertainty. This is completely subjective and will vary in practice from firm to firm. Thus we do not believe it clarifies the competency or level of proficiency expected.

As proficiency in application is truly subjective in nature, experience and education can only be measured by CPE and/or fieldwork experience. Please see our comments under Discussion Item No. 4.

### **Discussion Item No. 4**

*Comments as to additional topics to be included in the 4-hour GAGAS CPE requirement or other requirements that would enhance GAGAS proficiency. (paras. 4.15 through 4.23)*

Additional topics that may be considered:

- the revised 2017 exposure draft update itself,
- The Green Book and comment writing (common areas of noncompliance)
- Federal and State and Local workshops GAGAS audits (differences)
- Nonaudit Services –(identified in 4.23(a) under independence)

With regards to additional requirements, we feel that (4) four hours every (2) two years out of the required (24) twenty-four hours, may not be sufficient time at a supervisory (and higher) level to conclude a practitioner is proficient with respect to performing procedures on a GAGAS audit.

As noted above in discussion item No. 3, we stated that proficiency is overall subjective in nature, and we understand that developing a fair standard number of required ‘GAGAS CPE hours’ to be applied to the profession as a whole is also difficult. We would suggest as a preliminary requirement to the number of required GAGAS CPE hours, that the amount of hours required, also consider the number of attestation jobs that firm or practitioners perform.

Conceptually, we are suggesting that those firms with less experience performing GAGAS audits be required to complete more hours of GAGAS related CPE prior to the commencement of fieldwork, in order to ascertain that the related knowledge base is obtained. We also acknowledge that as a profession we are restricted under professional standards from taking on engagements that as a firm we do not have sufficient expertise in. The completion of the GAGAS CPE hours would not satisfy this requirement.

**Discussion Item No. 5**

*Is there additional application guidance that should be included from GAO-05-568G to effectively implement CPE requirements? (paras. 4.26 through 4.50)*

GAO-05-568G as noted is being retired – it may be helpful since GAGAS does not reference the AICPA or recognize the AICPA code that the relationship between GAGAS and other CPE requirements (i.e. NYSSCPA) subsection paragraphs 25 and 26 of that document also be incorporated into the exposure draft.

**Discussion Item No. 6**

*Are the changes to quality control and external peer review sections appropriate and reasonable? (Chapter 5)*

We noted that this area significantly expanded to include specific criteria and requirements in terms of quality control and peer review for GAGAS engagements. Overall the listed criteria was reasonable as it follows the criteria listed in the Statements on Quality Control Standards No. 8. However, what was unclear in the exposure draft, is if all GAGAS engagements must be subject to an internal EQCR review. Currently, under SQCS No. 8, audit firms have the ability to define in its quality control policy, which engagements will be subject to an Engagement Quality Control Review (“EQCR”). This policy is outside the monitoring policy which is discussed in the exposure draft. SQCS No. 8 criteria is written as follows:

*“The firm should establish criteria against which all engagements covered by this section should be evaluated to determine whether an engagement quality control review should be performed” (QC 10.29 paragraph .38)*

Although, it states in this section that a firm should establish policies for quality control, we feel that if it is intended by the GAO that all GAGAS audits be subjected to an EQCR review – then this should be clearly expressed as a requirement in this section.

**Discussion Item No. 7**

*Are peer review requirements for each category (affiliated with recognized organizations vs. other audit organizations), clear? (paras. 5.63 through 5.113)*

We noted that the segregation between categories as listed between paragraphs 5.64 and 5.65 and the separate criteria listed in each section would make it clear to the practitioner which standards they should follow. In addition we noted that the organizations listed under paragraph 5.64 are also clear.

**Discussion Item No. 8**

*Comments related to the incorporated reference to SSARS 21, section 90. (paras. 7.68 through 7.80)*

We noted that this is specifically in conflict with paragraph 2.13 of the exposure draft that GAGAS states

*“...and reviews of financial statements, GAGAS does not incorporate the AICPA Code of Conduct by reference...”*

We suggest that the language to be modified throughout the exposure draft to either remove “...and reviews of...” or to add some other modification that is not in conflict with the incorporated references to the AICPA code that is found throughout the exposure draft paragraphs and footnotes.

**Discussion Item No. 9**

*Do the sections in Chapter No. 8 clearly describe ways for auditors to assess internal control on performance audits? (paras. 8.37 through 8.65)*

We noted that the discussion on internal control was significantly enhanced from the 2011 Yellow Book, however, in response to the question, we feel that in order to bring a level of clarity for practical interpretation in professional practice, that this section should be directly tied to and organized by the (3) three objectives and (5) five components of internal control by name. We observed that they were mentioned as only objectives and components but not specifically identified in paragraph 8.38(c) and (d).

Thus we suggest adding the (3) three objectives:

- Operations
- Reporting
- Compliance

In addition to the (5) five components of internal control

- Control Environment
- Risk Assessment
- Control Activities
- Information and Communication
- Monitoring

Further, additional consideration may need to be given to reorganizing the application guidance under these paragraphs as the illustrated sections contain various paragraph references back and forth thus further demonstrating that there is not fluidity between the concepts. As a result we feel the objective of this section would be more transparent should it start with the objectives stated in 8.37 and organized by the guidance for considerations for each objective and relative components.

If you have any other questions or comments or wish us to provide further clarification of our responses contained in this summary, please contact me [REDACTED].

Sincerely,



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