



June 30, 2017

James Dalkin
Director, Financial Management and Assurance
US Government Accountability Office
441 G St. N.W.
Washington, DC 20548

Re: Government Auditing Standards 2017 Exposure Draft (GAO-17-313SP)

Dear Mr. Dalkin,

The Partners of Cherry Bekaert LLP wish to thank the Government Accountability Office for its commitment to the highest level of quality governmental auditing standards. We are equally committed to maintaining the highest level of auditing standards and thank the GAO for the opportunity to comment on the Government Auditing Standards 2017 Exposure Draft (GAO-17-313SP).

Please find below our responses to the Exposure Draft Questions. In some instances, we opted to not provide a response.

Question 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.

The new format is presented clearly and is well organized. The reorganization of chapters, as well as inclusion of boxed requirements, followed by application guidance, more clearly provides key content for the reader. Consistent separation of documentation requirements within requirements boxes may provide further clarity on what must be documented, resulting in additional compliance by practitioners with such requirements.

Question 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)

James Dalkin
Director, Financial Management and Assurance
June 30, 2017
Page 2

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

Cherry Bekaert believes that the definition of nonaudit services provided in paragraph 1.22, “professional services provided on behalf of management at audited entities” could be construed to include audit services or attest services, unless further clarified. Perhaps the first sentence from paragraph 2.12 in the 2011 version, which indicates nonaudit services are professional services other than audits or attestation engagements, could be added to this definition. In addition, Paragraph 3.67 indicates that an individual responsible for overseeing nonaudit services must possess suitable skill, knowledge or experience, then interjects “and” prior to stating to what those attributes relate. Perhaps the sentence could be revised to state “suitable skill, knowledge or experience, and that the individual sufficiently understands the nonaudit services to be provided, to oversee such nonaudit services and be capable of detecting a material error, omission or misstatement.” Furthermore, Cherry Bekaert believes that preparation of financial statements should be explicitly stated to be an example of self-review threat. Finally, the application of paragraph 3.67 nonaudit service independence guidance by practitioners is a growing problem due to the ever increasing complexity of accounting standards and the large number of small entities subject to audit. Perhaps more guidance could be provided for these situations.

Question 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?

Cherry Bekaert believes the roles and descriptions appear to adequately clarify competence required. As a suggestion, the words “at least” could be removed from 4.10c and any subsequent reference to these roles, such as in paragraph 4.15, should refer to the roles. For example, the last sentence in paragraph 4.15 should state “Those in entry level roles”, rather than referring to “entry-level staff”.

James Dalkin
Director, Financial Management and Assurance
June 30, 2017
Page 3

Question 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.

Please see our response to Question 5 regarding CPE.

We do have other concerns regarding the 4 hour requirement. Most Learning Management Systems (LMS) do not have the capability to track this additional requirement. Cherry Bekaert is concerned that the tracking would be onerous and would not meet the cost benefit analysis.

In addition, the guidance for CPE requirements is vague and creates inconsistencies. In the proposal, the example in paragraph 4.23a could easily be construed to be satisfied by taking a course on ethics or on peer reviews, which is not the intent. If the intent is for the CPE to be specific to the contents of the Yellow Book, it may be best to avoid examples that could otherwise be interpreted and simply emphasize that the CPE course content must be on the contents of GAGAS.

Question 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?

A current CPE issue is identifying what qualifies for the YB24 verses the YB80 requirement. If GAO intends to remove the 2005 guidance regarding CPE, the level of detail from that guidance needs to be included in the final Yellow Book. Cherry Bekaert believes additional application guidance should be included to provide more detail as to what would NOT be included as meeting the GAGAS requirements. In addition, Paragraph 4.18 could be enhanced by further describing the 56 hour requirement and it would be helpful to further clarify what qualifies versus the 24 hours requirement.

James Dalkin
Director, Financial Management and Assurance
June 30, 2017
Page 4

Question 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.

Cherry Bekaert does not support the inclusion of waste as a financial statement reporting objective. We believe that the concept of waste is more accurately characterized as a performance audit objective. Therefore, reporting waste in the financial statement report will likely cause confusion among report users and potentially lead to unwarranted claims and litigation.

Thank you once again for allowing our Firm the opportunity to comment on this matter. We applaud the GAO’s initiative and efforts, and look forward to seeing the final standard. If you have any questions, please contact us at [REDACTED].

Sincerely,

CHERRY BEAKERT LLP



Technical Director - Audit and Assurance Services