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July 6, 2017

Mr. James Dalkin  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G. St. N.W.  
Washington, D.C. 20548

**Re: GAO-17-313SP—Government Auditing Standards Exposure Draft**

Dear Mr. Dalkin:

Deloitte & Touche LLP is pleased to respond to the Government Accountability Office's (the "GAO") exposure draft of Government Auditing Standards—2017 Revision (the "2017 Revision"), commonly referred to as the Yellow Book (the "Yellow Book").

We commend the GAO for its continued efforts to re-examine and improve the requirements and application guidance contained in Government Auditing Standards.

We believe it is important to periodically review the standards to ensure they reflect the current auditing environment and meet the needs of the users.

Our comments and recommendations are further discussed below and in the appendices that follow, which contain our detailed responses to the questions posed in the 2017 Revision (Appendix I), as well as recommendations and suggested edits related to specific paragraphs in the document (Appendix II).

**Overall Comments**

***Format***

We believe the revised format of the document is an improvement over the December 2011 Revision of Government Auditing Standards, GAO-12-331G (the "2011 Revision"). The incorporation of application guidance from both the Supplemental Guidance included in Appendix I of the 2011 Revision and the Guidance on GAGAS for Continuing Professional Education, GAO-05-568G, into the main text of the Yellow Book will facilitate and encourage the more frequent use of application guidance. The revised presentation that differentiates requirements from application guidance provides clarity to areas that previously may have required an auditor's interpretation or significant judgment.

***Terms***

The definition of key terms is a critical part of the document and the expansion of the terms defined in Chapter 1 proves helpful in understanding and applying concepts and requirements. It is important to define certain terms before they are used in the chapter to avoid unnecessary confusion. These definitions (paragraph 1.23 of the 2017 Revision) would be better placed in a separate section at the beginning of the document, consistent with the 2011 Revision. For example, clarifying the definition of "auditor" as used in the context of the Yellow Book is imperative to be included at the start of the document.

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### ***Consistency with AICPA Standards***

GAGAS incorporates the standards of the AICPA by reference. Because engagements conducted in accordance with GAGAS will generally be conducted in accordance with the standards of the AICPA, it is important that consistency exists between the standards, in form and in substance. Certain terminology used to define engagements covered by GAGAS differs from the terminology used in the AICPA professional standards for the same engagement types. We recommend that language be conformed to AICPA terminology where possible and identify differences and the reasons therefor. We have provided specific examples in Appendix II.

### **Independence**

#### ***Preparation of Accounting Records and Financial Statements***

The requirements related to the preparation of accounting records and financial statements included in paragraph 3.89 of in the 2017 Revision represent a substantial change from the 2011 Revision. As described in paragraph 3.52 of the 2011 Revision, an auditor may be able to provide certain services related to preparing accounting records and financial statements provided that certain conditions (i.e., general requirements) are met. However, in the 2017 Revision, these same services are now considered capable of creating a significant threat to auditor independence, requiring that an auditor documents the threats and safeguards applied to eliminate and reduce threats to an acceptable level, or decline to perform the services. We do not believe that there is a reasonable basis to conclude that such activities create significant threats to independence when the requirements for providing nonaudit services have been met and the services are in compliance with the application guidance of the 2017 Revision. We have provided additional comments related to this topic in Appendix II.

#### ***Engagement Specific Terminology***

Terminology used throughout the section on the Conceptual Framework for Independence uses terms (e.g., "audit risk," "concluding/conclusions") that are only applicable to certain Yellow Book engagements. We recommend the language and terminology be reviewed and revised as needed to encompass all Yellow Book engagements as appropriate.

### **Competence and Continuing Professional Education**

#### ***Assigned Roles***

The application guidance provided that is related to Competence for Assigned Roles attempts to define and delineate roles and responsibilities in a clear-cut way to assign required proficiency levels to those roles. However, different responsibilities and tasks may cross levels and may differ across firms and audit teams. We do not believe this guidance is universal enough as written to prove useful. Providing guidance in relation to tasks performed, as included in the Definition of Key Terms section of the application guidance, is more useful when assessing competence.

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### ***Specialists***

We believe that assessing the competence and professional qualifications of specialists through a variety of sources is appropriate, and we agree with the revised application guidance.

### ***Continuing Professional Education***

The four-hour requirement for continuing professional education related to the "GAGAS Qualification" is an unnecessarily onerous requirement in several ways. We believe it is appropriate that those members of the audit team who are responsible for leading the team are properly trained in GAGAS matters prior to beginning the engagement; however, the topics provided naturally lend themselves to a one- or two-hour course rather than a four-hour course. Additionally, the course should be required of those leading the engagement and only optional for other team members, as others will still be required to complete the 24-hour requirement (which we believe is sufficient for the purposes of conducting the audit).

### ***Auditor's Responsibility for Identification and Communication of Waste***

#### ***Definition, Requirements, and Procedures***

The primary part of the definition of waste, as included in the 2017 Revision, comes from The 2014 *Standards for Internal Control in the Federal Government* (the "Green Book"). However, several ambiguous terms that require a significant amount of audit judgment are included in that definition. Very little application guidance is provided in the chapters related to the requirements when waste or potential waste is identified. We recommend that the definition and requirements be clarified and that significant application guidance be provided that includes specific procedures to be performed when waste or potential is identified. The revised requirements and application guidance should promote consistency with engagement objectives and across chapters, as appropriate. Documentation elements should be added to requirements, where appropriate. We believe well-defined requirements and additional application guidance are essential to ensure that auditors treat the identification, testing, and reporting of waste consistently.

#### ***Scope***

The 2017 Revision states that "if the auditors become aware of waste or abuse that could be significant to the *entity's operations*, they should consider the possible effect on the entity's operations." The broad topic of the *entity's operations* is outside the scope of the financial statements or financial-related data significant to the audit objectives and, therefore, is outside the scope of the financial statement audit or examination. This requirement should be removed from the Waste and Abuse section of Chapter 6 (paragraph 6.16) and Chapter 7 (paragraph 7.18).

#### ***Inconsistency between Engagement Types***

The requirements and application guidance related to waste are inconsistent between the types of Yellow Book engagements, even when the scope of engagement does not appear to warrant a difference. Thresholds for consideration and communication of waste should be

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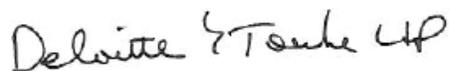
clearly defined, whether based on professional judgment or another basis. The basis for determining when to apply procedures related to waste and abuse relates to the auditor's awareness of its existence in all the GAGAS engagement types other than performance audits. Requirements and application guidance for performance audits indicate that auditors have a responsibility for the risk assessment of waste and the abuse concurrent with the risk assessment for fraud in a performance audit. We recommend that the auditor's responsibility for waste and abuse be made consistent across all engagement types, and that the requirements and application guidance for performance audits be revised accordingly.

\* \* \* \* \*

If you have any questions concerning our responses, please contact Mike Fritz at

██████████.

Yours truly,

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

Deloitte & Touche LLP

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This revision was made to ensure that standards continue to meet the needs of the federal, state, and local government communities, as well as the public these bodies serve. In this revision, a list of questions was posed to commenters.

We have provided below our detailed responses to the questions posed in the 2017 Revision in Appendix I, as well as additional detailed comments and recommendations for the specific paragraphs or chapters in Appendix II below.

### **Appendix I—Responses to Questions in the 2017 Revision**

*1. 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.*

We believe that the reorganized chapters and revised presentation improve overall readability. The specific identification of requirements and application guidance adds clarity and assists the auditor by providing well-organized information related to the topic in one place. However, like any change, the reorganization of chapters and application guidance may make the document challenging to navigate for a period of time until auditors acclimate and familiarize themselves with it. Because the documents cannot easily be compared, there is a risk that changes from the 2011 Revision will be missed in the early years of implementation. We suggest that a crosswalk document be provided that cross-references paragraphs from the 2017 Revision to the 2011 Revision and the Guidance on GAGAS for Continuing Professional Education. This document should highlight new paragraphs that have been added as well as paragraphs removed from the old literature.

*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.*

In general, we believe that the expanded guidance concerning the provision of nonaudit services to audit entities (e.g., the inclusion of possible safeguards that one could use to address threats to independence arising from the provision of nonaudit services in paragraph 3.77 of the 2017 Revision, guidance on three-party arrangements in paragraph 3.80 of the 2017 Revision, and guidance on disclosing the nature of threats that cannot be eliminated or reduced to an acceptable level because constitutional or statutory requirements do not allow for the implementation of safeguards as described in paragraph 3.85 of the 2017 Revision) are helpful in determining the appropriateness of providing nonaudit services to audited entities. Further, we believe the expanded guidance on management responsibilities in connection with the provision of nonattest services to audited entities is, generally, clearly written and will enable aenable auditors to better understand what is permissible and prohibited under GAGAS, and is also largely consistent with the guidance provided in the AICPA *Code of Professional Conduct*. However, we have

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concerns with certain aspects of the independence provisions in the 2017 Revision. Please refer to Appendix II for our comments related to the provision of nonaudit services.

*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?*

We do not believe the roles and descriptions necessarily add value in determining the competence of audit teams. Because roles can vary significantly by organization—and by, and within, audit teams—attempting to define roles is not a meaningful exercise. Reviewing the key tasks, as included in the Definition of Key Terms section of the Competence for Assigned Roles application guidance, is a more practical and universal way to define competencies and necessary skills required to perform a GAGAS engagement. The proficiency that is required should be based on tasks that auditors can be expected to complete, as was provided for in the 2011 Revision.

*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.*

We believe that the GAGAS Qualification course based on the content and topics proposed in paragraph 4.23 lends itself to a one- or two-hour course, not a four-hour required course.. We agree that it is important for auditors leading the engagement to have been trained in GAGAS prior to beginning a GAGAS engagement. However, other auditors participating in the engagement can be appropriately trained by completing the 24-hour and 56-hour CPE requirements.

Please refer to our detailed comments related to CPE in Appendix II.

*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?*

The 2017 Revision provides much of the application guidance that was previously included in GAO-05-568G, which is a frequently referenced document for CPE guidance. While the guidance around certain topics was revised and reworded in broader terms, we found that the specific examples included in paragraphs 18 and 19 of GAO-05-568 were helpful, and we recommend the GAO retain these examples and revise them as needed.

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*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?*

We believe the changes made to the sections on quality control and peer review are reasonable, and that they will promote consistency in practice among GAGAS auditors.

*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?*

We believe this change is appropriate and reasonable. The peer-review requirements are clear, but paragraphs could be renumbered into sections such that the bifurcation of requirements between categories of organizations is clearer (e.g., Section 5A—Audit organizations affiliated with recognized organizations, and Section 5B—Other audit organizations).

*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.*

We believe the incorporation of the attestation standards by reference is necessary and appropriate. Certain aspects of these standards were explicitly referenced in the 2011 Revision and other aspects were left open to interpretation, which made application challenging and, at times, inconsistent between teams and organizations. The requirements and application guidance in the 2017 Revision should improve consistency in the execution of these engagements.

The 2017 Revision also introduced the concept of "waste," the auditor's responsibility for performing procedures related to waste, and responsibility for reporting waste—not only in Chapter 7 (Attestation Engagements and Reviews), but also in Chapter 6 (Financial Statement Audits) and Chapter 8 (Performance Audits). We have significant concerns about the definitions that we do not believe are sufficient or specific enough and the lack of and inconsistency in requirements and application guidance on this topic. Appendix II contains detailed comments related to our concerns.

*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?*

While the sections added to Chapter 8 define the way an auditor should assess internal control in a performance audit, Chapter 8 is unclear as to the auditor's responsibility for internal control in a performance audit as a whole.

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Chapter 1, paragraph 1.21 identifies the key categories of performance audit objectives. These key audit objectives should be reidentified in Chapters 8 and 9, as they are important to the requirements and application of guidance in performance audit procedures and reporting.

Auditors should apply the requirements to assess (Chapter 8) and report on (Chapter 9) internal controls in a performance audit to performance audits in which the key performance audit objective is an internal control objective (paragraph 1.21b). We believe the GAO should clarify this in the requirements and application guidance in Chapters 8 and 9.

Additionally, we note that application guidance throughout the 2017 Revision refers to the use of the COSO framework as provided in the Green Book. We recommend that application guidance clarify that the COSO framework, as included in the Green Book, is not a required framework for state and local governments, but is a best practice.

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## **Appendix II—Detailed Comments and Recommendations Related to Specific Paragraphs and Chapters**

### Chapter 1—Government Auditing

1.18—Certain language that defines the engagements GAGAS is applicable to is inconsistent with the terminology that the AICPA professional standards use, even though such standards are encompassed in GAGAS. We recommend that the GAO conform the language with AICPA terminology where possible, and we have provided two instances of such inconsistencies noted as follows [emphasis added]:

The second sentence of paragraph 1.18: “In an attestation engagement, *a party other than the auditors* measures or evaluates the subject matter...” would not be true for all types of attestation engagements.

The third sentence of paragraph 1.18: “The auditor’s *conclusion* addresses whether the results of that measurement or evaluation...” incorrectly presumes that a conclusion is reached for all attest engagements. We suggest the GAO reword this to encompass the different services of attest engagements: opinion (examination), conclusion (review), or findings (agreed-upon procedures).

### Chapter 2—General Requirements for Complying with *Government Auditing Standards*

2.12—For reviews of financial statements, the AICPA has clarified SSARS 21 Statements of Standards for Accounting and Review Services: Clarification and Recodification, into AR-C Section 90. Consider updating the reference.

2.12 to 2.13—The Yellow Book indicates that the AICPA standards are incorporated by reference, with the exception of the code of conduct. Because the standards will require auditors to follow the AICPA code of conduct or another framework—which is not incorporated by reference and, therefore, to apply a second conceptual framework for independence—we suggest this point be clearly reiterated in the introduction to Chapter 3.

### Chapter 3—Ethics, Independence, and Professional Judgment

3.55 to 3.57—The 2017 Revision categorizes safeguards into Categories I through III, which we identify in these paragraphs; however, the document does not further develop these “categories” regarding their purpose, relevance, etc. The GAO should further develop, reference, explain, or remove this categorization.

3.76—The 2017 Revision includes a list of routine activities directly related to an audit that GAGAS do not considered nonaudit services and, therefore, do not require an evaluation under the conceptual framework. While the activities listed in paragraph 3.76 are largely consistent with paragraph 3.41 of the 2011 Revision, a specific item, “Researching and responding to the audited entity’s technical questions on relevant tax laws as an ancillary part of providing tax services,” that is included in the 2011 Revision was omitted. It is unclear why this item was omitted; We recommend the GAO provide further clarification as to the basis for such item’s omission from the list.

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3.89—The section on Requirements: Preparing Accounting Records and Financial Statements is a substantial change from the requirements and guidance contained in the 2011 Revision. As we noted in our cover letter, we do not believe that there is a reasonable basis to conclude that the activities paragraph 3.89 references create significant threats to independence when the requirements for providing nonaudit services have been met (paragraphs 3.67, and 3.81 through 3.85) and the services are in compliance with the application guidance (paragraphs 3.70 through 3.79, and 3.86). We also note the following with respect to paragraph 3.89:

It is unclear whether the documentation requirement paragraph 3.89 references is a requirement above and beyond the documentation paragraph 3.37 requires, which states: *"In cases where auditors determine that threats to independence require the application of safeguards, auditors should document the threats identified and the safeguards applied to eliminate or reduce the threats to an acceptable level."* We recommend that the GAO clarify whether the documentation paragraph 3.89 requires is an additional requirement or may be satisfied by complying with paragraph 3.37. If paragraph 3.89 is an additional requirement, provide additional guidance on the purpose of this additional requirement.

Paragraph 3.89 includes a requirement to decline to perform services related to preparing accounting records and financial statements when such services create significant threats to an auditor's independence in cases where an auditor fails to document the threats and safeguards applied to eliminate and reduce threats to an acceptable level. It is unclear from the text of paragraph 3.89 whether the existence of significant threats to independence and safeguards applied to eliminate or reduce the threats to an acceptable level is the basis for concluding that the service is to be declined, or is it based on the failure to prepare the required documentation. In the case of the latter, then this position would need to be reconciled with the placement of the documentation requirement in Figure 1: GAGAS Conceptual Framework for Independence. This provision is also inconsistent with the conceptual framework approach to analyzing independence as described in paragraph 3.28 of the 2017 Revision, which provides that if significant threats to independence are identified, safeguards may be applied to eliminate or reduce those threats to an acceptable level. Based on this, it would seem reasonable to conclude that where significant threats to independence associated with the provision of a nonaudit service are identified, and the threats are reduced to an acceptable level via the application of safeguards, that it would not be necessary to decline to perform the services. Finally, although not specifically stated, one might presume that under paragraph 3.31 of 2017 Revision, if it is determined that if no safeguards have been effectively applied to eliminate an unacceptable threat or reduce it to an acceptable level and independence is impaired, then it would be reasonable to conclude that the nonaudit service opportunity would need to be declined. The GAO should consider clarifying and reconciling these seemingly contradictory positions in the 2017 Revision to assist practitioners in applying the rules.

#### Chapter 4—Competence and Continuing Professional Education

4.10—This paragraph related to Technical Knowledge and Roles attempts to define and delineate roles and responsibilities in a clear-cut way to assign required proficiency levels to

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roles. However, different responsibilities and tasks may cross over levels and may differ across firms, teams, services, and even deliverables within engagements. The 2011 Revision defined proficiency requirements in terms of tasks for which the team member is responsible (which is provided in paragraph 4.11 in the 2017 Revision). Defining required proficiency by task is more meaningful. We recommend that the GAO remove paragraph 4.10 and revise the related content defining roles to reference task-based proficiency requirements.

4.17—Auditors must complete the GAGAS Qualification CPE hours “each time the Comptroller General issues a revision of GAGAS.” The GAO should clarify what constitutes “a revision of GAGAS,” which would require completing a new GAGAS Qualification course.

4.15 to 4.17, and 4.23—We recommend that the GAO reduce the GAGAS Qualification requirement to a one- or two-hour course, as one can sufficiently cover the topics paragraph 4.23 provides in no more than two hours. Additionally, the requirement should be limited to those who lead the engagement (performing supervision and review tasks). Other auditors assigned to GAGAS engagements receive appropriate training for their tasks by complying with the 24- and 56-hour CPE requirements of paragraph 4.18.

4.26 to 4.50—The application guidance does not provide specific examples of the courses 05-568G includes. As it is helpful to have specific examples of courses that may qualify for the 24- and 56-hour requirements, we recommend that the GAO include these examples in the application guidance.

#### Chapter 6—Standards for Financial Audits

6.16 to 6.17 (*comment applies throughout Chapter 6, as well as Chapters 7, 8, and 9, where “waste” is identified*)

Paragraphs 6.16 to 6.17 require that the auditor performs audit procedures if the auditor becomes aware of waste that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives. We believe that such procedures should be identified in and limited by specific requirements and application guidance. The definition provided (paragraph 6.17 below, emphasis added) contains many subjective criteria that require too many subjective criteria that are not well described such that it will be difficult, if not impossible, for auditors to make consistent judgments in this regard. Lack of sufficient guidance may result in inconsistent application and reporting by auditors, reducing the efficacy of the requirement. Further, as Chapters 7 and 8 repeat this definition, application guidance should provide the expected procedures for each type of engagement.

*Waste is the act of using or expending resources **carelessly, extravagantly, or to no purpose**. Waste involves the taxpayers not receiving reasonable value for money in connection with any government-funded activities because of an **inappropriate act** or omission by parties with control over or access to government resources. Importantly, waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to **mismanagement, inappropriate actions, and inadequate oversight**.*

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6.16 to 6.17—The guidance related to paragraphs 6.16 through 6.17 and the corresponding paragraphs in Chapters 7 and 8 does not address documentation requirements related to the auditor’s consideration of waste, *whether or not* it is identified. Consideration should be given as to whether documentation application guidance should be provided for fraud, waste, and abuse, whether or not identified.

6.16 and 7.18—The requirement to consider the potential effect of waste or abuse on the *entity’s operations* is outside the scope of a financial statement audit or examination engagement. The GAO should remove the last sentence from the text of paragraphs 6.16 and 7.18.

6.17—Paragraph 6.17 provides a definition of waste consistent with the Green Book. As the determination of waste is subjective, we recommend that the GAO adapt and add the application guidance in the last two sentences of paragraph 6.18, provided below, to the guidance for waste for consistency. This comment applies to each definition of waste provided throughout Chapters 6 through 9.

*Because the determination of [abuse] is subjective, auditors are not required to perform procedures to detect [fraud] in [financial audits]. Auditors may discover that [fraud] is indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements. [emphasis added]*

#### Chapter 8—Fieldwork Standards for Performance Audits and Chapter 9—Reporting Standards for Performance Audits

As we noted in our cover letter, paragraph 1.21 includes three categories of performance audit objectives. We recommend that the GAO integrate these key performance audit objectives into Chapters 8 and 9 to form the framework for performance audits.

8.69 to 8.76—Waste and abuse is discussed along with fraud in terms of awareness in paragraph 8.69; however, the paragraphs that follow relate to the required fraud risk assessment procedures throughout the audit, implying that such procedures related to waste and abuse may also be required in every performance audit (not just when the auditor becomes aware of instances of waste/abuse or potential waste/abuse). The GAO should add clarifying language to this section to assist the auditor in determining what procedures are required related to waste and abuse in a performance audit. Refer also to our comments (Chapter 6) related to waste.

Additionally, we noted certain inconsistencies in the following chapters related to internal controls:

- 8.37 and the related paragraphs that follow do not clearly indicate that obtaining an understanding of internal controls, performing design and implementation testing, and performing operating effectiveness testing of internal control are only required for performance audits with key internal control audit objectives (refer to paragraph 1.21b). The GAO should clarify this requirement and the related application guidance.

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- 8.123—The 2017 Revision references The Green Book for use by auditors. The GAO should clarify that state and local governments **are not required** to adopt the Green Book, but may do so as a best practice and, therefore, auditors should inquire of management as to the internal control system the entity adopted when considering internal control. [emphasis added]
- 9.24 and 9.25—The auditor is required to report on internal control in a performance audit only if they are significant to the audit objectives; therefore, the GAO should clarify paragraph 8.115 to indicate that the auditor is not required to report on internal controls except when the performance audit objectives are internal control-related.