



July 6, 2017

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U.S. Government Accountability Office  
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**VIA ELECTRONIC MAIL**  
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The Governmental Executive Committee (Committee) would like to express its appreciation to the Comptroller General and his staff for considering our comments in response to the 2017 Exposure Draft of *Government Auditing Standards*. We are generally supportive of the efforts of the U.S. Government Accountability Office (GAO) to improve the clarity and transparency of *Government Auditing Standards* by adopting a revised format differentiating between requirements and related application guidance.

In reviewing the current Exposure Draft, the Committee identified several concerns we believe the Comptroller General and his staff should consider before issuing the latest version of *Government Auditing Standards* in its final form:

- For proposed § 3.24, we believe the need to apply independence rules for an engaging party depends on the level of involvement the engaging party has with the auditor. For instance, the example in (a) appears to indicate the legislative body is merely engaging the auditors to conduct the performance audit and then will wait for the auditor's report. We concur this type of activity does not require independence on the part of the legislature acting as an engaging party. However, a state auditor acting as an engaging party with a public accounting firm to conduct an audit or attestation engagement of an agency – where the state auditor has more involvement than merely selecting the auditor and waiting for the results, such as providing general direction, conducting oversight, and reviewing and approving findings – should require the engaging party's independence. We recommend the GAO consider changing the proposed standard to require the engaging party apply professional judgment on whether the independence rules should apply based on the engaging party's involvement level with the engagement as a whole. The current guidance in (a), (b), and (c) could be incorporated with other examples in the related application guidance.

- The various boards of accountancy nationwide have adopted different requirements for the continuing professional education (CPE) reporting period. From a cursory review of the CPE reporting periods across the nation as reported by the National Association of State Boards of Accountancy (available on its website at <https://www.nasbaregistry.org/cpe-requirements>), it appears the various boards of accountancy and the American Institute of Certified Public Accountants (AICPA) have adopted annual, biennial, and triennial reporting periods<sup>1</sup>. In order to ease administrative burden and promote consistency, we recommend the GAO consider changing proposed § 4.15 through proposed § 4.19 to align the standards to each jurisdiction's Certified Public Accountant (CPA) licensure requirement<sup>2</sup> or the requirements of the AICPA, whichever is more stringent. For example, the State of Illinois has a triennial reporting period, with the current CPE reporting period running from October 1, 2015, through September 30, 2018. During this period, GAGAS should require an auditor to maintain their professional competence by completing a minimum of 120 hours of CPE, with 36 hours covering standards, statutory requirements, regulations, criteria, and guidance applicable to auditing or the objectives for the GAGAS requirements being conducted and 84 hours covering subject matter or topics directly enhancing the auditor's professional expertise to conduct GAGAS engagements. As a part of these requirements, the annual minimum CPE hours in proposed § 4.19 would be a minimum of 30 CPE hours per year (as  $20 \text{ hours} \div 80 \text{ hours} = 25\%$ ; therefore, 25% of 120 total CPE hours over three years equals 30 CPE hours per year) and the annual minimum CPE under proposed § 4.15 would be six hours (two hours per year x three years).
- Proposed § 4.17 could be modified to require this training occur within one year after the release of the revised version of GAGAS to obtain (1) timely competence among the accountability community for GAGAS revisions and (2) allow for flexibility within our proposal to tie the GAGAS CPE requirements to an individual jurisdiction's CPE reporting requirement for CPAs. Similarly, proposed § 4.15 should require training to obtain the GAGAS certification before any individual works on a GAGAS engagement, regardless of the individual's level of responsibility on the engagement.
- Guidance contained in different sections pertaining to the same subject should be grouped into one section (with subsections, where necessary). For example, the requirements for departing from a presumptively mandatory requirement in the proposed § 2.03 and proposed § 2.04 should be combined into one section covering all of the different mandatory elements (document justification for departure, perform alternative procedures to achieve intent, and document how the alternative procedures were sufficient to achieve intent). Similarly, the GAO should consider having redundant sections (such as the definition of waste and abuse in proposed § 6.17, § 6.18, § 7.19, § 7.20, § 7.75, § 7.76, § 7.86, § 7.87, § 8.75, and § 8.76) defined in one location. By reducing the amount of duplication and streamlining all required elements of a standard together in one section as opposed to being parts of various sections throughout GAGAS, both the readability and understandability of GAGAS would improve.

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<sup>1</sup> It appears the only jurisdiction in the United States without a CPE requirement is the State of Wisconsin.

<sup>2</sup> For entities outside of the United States applying GAGAS, they could default to the three-year reporting window.

- For proposed § 3.75, we would caution the GAO to consider the impact of determining the cash to accrual and GASB Statement No. 34 conversions as not being routine activities that call for auditee oversight as having a significant burden on smaller units of government. As a matter of practice, many smaller governments may not possess the level of knowledge to either (1) perform these tasks or (2) take sufficient responsibility over the final product, especially in light of the continued expansion of the use of deferred inflows and outflows for pensions and other post-employment benefits. On top of this, some local governments in some areas have very limited options (both obtaining two firms and absorbing the associated financial burden) for what will practically require two separate firms to prepare and then audit the financial statements. While this proposal is a good idea conceptually, practically it will be very difficult to achieve for smaller governments.
- For proposed § 4.27, we believe all auditors on a GAGAS engagement should fall under proposed § 4.26 and no differentiation should be made for entry-level auditors.
- For proposed § 6.16 and proposed § 7.18, the public has a great distaste – and rightfully so – for waste and abuse within governmental operations. As such, we believe the standard for reporting a finding for waste and abuse for independent auditors should be if the instance or instances noted are greater than clearly trivial as opposed to significant to an entity's operations and warranting, at a minimum, the attention of those charged with governance. Similarly, for proposed § 7.74 we believe matters involving fraud and abuse should be reported if the instance or instances noted are greater than clearly trivial as opposed to making communication solely a matter of professional judgment based on if the matter warrants the attention of governance. An additional benefit is these changes, if adopted, would better align GAGAS with the high expectations expected by the public of the accountability profession. In regards to proposed § 8.69, as the members of the Committee are not normally involved in performance audits, we do not feel comfortable providing feedback on this disposition for waste and abuse.
- For proposed § 7.73, we believe the proposed requirements to add the consideration of waste as elaborated on in proposed § 7.75 and proposed § 7.76 exceeds the scope of a review engagement. While we believe the concept of noting waste and abuse has merit, we are not comfortable with this proposed modification for review engagements. If the GAO decides to maintain the current draft of the proposal, we believe these issues should be reported if the instance or instances noted are greater than clearly trivial as opposed to making communication solely a matter of professional judgment based on if the matter warrants the attention of governance.

Further, the Committee would like to provide its responses to the “Questions for Commenters” from Enclosure II (GAO question in black; **Committee response in red**):

- 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.

We believe the revised format of GAGAS is generally helpful and enhances the readability of the standards. However, we believe the revisions could be even better if the GAO adopts a format similar to the recently clarified auditing and attestation standards published by the AICPA’s Auditing Standards Board. It may be better to group all of the requirements together in the current X.XX format with cross references to the application guidance grouped together with a different format, such as X.AGXX. For example, the requirements for departing from a presumptively mandatory requirement in the current proposed § 2.03 and § 2.04 would include a cross reference in the X.AGXX format for the current proposed § 2.08. This change would enhance the ability of practitioners and others to communicate with each other about GAGAS, as each citation would clearly indicate whether it was a requirement or application guidance based upon its reference style.

- 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.

It appears the revisions are clear regarding what is required and prohibited under GAGAS.

- 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?

In proposed § 4.07, GAGAS differentiates between education and experience in deriving an auditor’s competence; however, proposed § 4.10 does not expand on what is the minimum level of education and experience requirements are needed for each level. Rather, proposed § 4.10 essentially states creates three levels (basic with low complexity, intermediate with moderate complexity, and advanced with high complexity) without defining or providing further application guidance on what this means (such as advanced degrees, professional licensure, certificates, and work experiences). It is difficult to see how this proposed standard enhances GAGAS, as most audit organizations already follow this type of structure. We would recommend eliminating proposed § 4.10, as proposed § 4.08 and proposed § 4.09 appear adequate for auditors to use in applying professional judgment in assigning individuals to specific roles on engagement teams. However, we recognize the limitations within our response, as we may not be aware of a specific situation or problems the GAO was attempting to address in drafting this application guidance.

- 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 the listing at proposed § 4.23 appears inclusive of the various areas of training accountants could need for working on GAGAS engagements. With regards to the training envisioned by proposed § 4.17, we believe the GAO should publish an outline and a slide show indicating the topics the GAO wants covered during the four hour revised GAGAS training session that could be used nationwide by CPE granting entities in conducting training to meet this requirement.

- 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?

We did not note any additional application guidance on CPE that should be included within this revision of GAGAS. We would note, however, that if the GAO was to adopt our suggestion to align the CPE standards to each jurisdiction's Certified Public Accountant (CPA) licensure requirement or the requirements of the AICPA, these sections would have to be appropriately modified.

- 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 noted the proposed quality control and peer review guidance appears both reasonable and appropriate.

- 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 noted the proposed peer review requirements for both recognized organizations and other audit organizations appear clear.

- 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.

The expanded requirements and application guidance appear reasonable when a review of financial statements is performed in accordance with GAGAS.

- 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?

The members of the committee are not normally involved in performance audits and do not feel comfortable providing any feedback to this question.

Again, we appreciate the opportunity to offer our comments to the Comptroller General and his staff.

Sincerely,

**Christine Torres, CPA**  
Chair, Governmental Executive Committee

APPENDIX A

ILLINOIS CPA SOCIETY  
GOVERNMENTAL EXECUTIVE COMMITTEE  
ORGANIZATION AND OPERATING PROCEDURES  
2016-2017

The Governmental Executive Committee of the Illinois CPA Society (Committee) is composed of the following technically qualified, experienced members appointed from government and public accounting. These members have Committee service ranging from newly appointed to more than 30 years. The Committee is an appointed senior technical committee of the Society and has been delegated the authority to issue written positions representing the Society on matters regarding the setting of governmental accounting and auditing standards. The Committee's comments reflect solely the views of the Committee, and do not purport to represent the views of their business affiliations.

The Committee usually operates by assigning Subcommittees of its members to study and discuss fully exposure documents proposing additions to or revisions of accounting standards. The Subcommittee ordinarily develops a proposed response that is considered, discussed, and voted on by the full Committee. Support by the full Committee then results in the issuance of a formal response, which at times, includes a minority viewpoint.

Current members of the Committee and their business affiliations are as follows:

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