

**Office of the Inspector General Department of Defense
Comments on the Generally Accepted Government Auditing Standards
2017 Revision Exposure Draft**

Overall Comment

Although GAGAS defines the use of “must” and “should”, it does not define the use of “may.” Due to reliance on the word “may” throughout application guidance, the GAGAS should include a definition for it in Chapter 2. Also, a review of the GAGAS 2017 revision is necessary to evaluate the use of “may” versus “should.” Our interpretation is that the use of “may” in application guidance grants the audit organization the authority to determine whether to perform the actions in the guidance. If the audit organization chooses to take the action, the guidance then allows, by using “may”, the audit organization to decide whether to manage or document its participation or decision. Instead, the guidance should require certain other actions once the audit organization elects to perform the initial action. For an example, see comment No. 19.

Underlined text in the specific comments section indicates the word or phrase that is the subject of the recommended change.

Response to Questions for Commenters

Below are comments to Questions 1, 3, 4, 5, 6, and 7. We have no comments on Questions 2, 8, and 9.

Chapter 1 – Government Auditing: Foundation and Principles for the Use and Application of Generally Accepted Government Auditing Standards

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 requirements are regrouped within the chapters. Please comment on how the revised format of GAGAS affects the organization and readability of the standards.

DoD OIG Comment. The revised format is well organized and the readability is improved over the 2011 GAGAS. For instance, moving the CPE and quality control and peer review standards from the General Standards section into single chapters in this revision, allows readers to more easily find the expanded information on these standards. The revised format of the chapters also clearly differentiates requirements and application guidance. The revised format assists readers in understanding the requirements and application guidance related to those requirements.

Chapter 4 – Competence and Continuing Professional Education

Question 3. 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?

DoD OIG Comment. The level of proficiency for each role is not clearly defined and open to significant interpretation. An auditor's background, knowledge, and experience influences their interpretation of low, moderate, or high level of ambiguity, complexity, and uncertainty.

The proposed roles and their definitions do not include all audit roles and experience. Audit organizations have significantly unique roles and responsibilities for auditors at various levels based on the audit organization's size, structure, and audit responsibilities. An entry level auditor for one audit organization may be on an audit team and only responsible for performing certain procedures with supervisory guidance. An entry level auditor for another audit organization may require a more advanced level of proficiency to independently conduct a full audit cycle from planning to reporting.

In addition, a gap exists between what is defined as entry level and supervisory auditor. Entry level only requires a basic level of proficiency. However, auditors may have significantly more than a basic level of proficiency, but not be a supervisory auditor. For instance, an auditor may possess significant experience

and conduct highly complex audits from beginning to end, to include planning and reporting. Because of this gap, paragraph 4.15 does not discuss the GAGAS Qualification Requirement for journey level or senior level auditors who may be the majority of an audit organization's staff.

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.

DoD OIG Comment. The items defined in paragraph 4.23 adequately identify the GAGAS topics that should be included in the 4-hour GAGAS Qualification requirement. The GAGAS training topics included in paragraph 4.23 closely follow the outline of the draft 2017 GAGAS to include the theme of each chapter as well as significant requirements within the chapters.

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?

DoD OIG Comment. Chapter 4 of the 2017 GAGAS revision addresses the content from the GAGAS guidance document on CPE (GAO-05-568G). A comparison of the two documents revealed only minor omissions of CPE requirements.

Chapter 5 – Quality Control and Peer Review

Question 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?

DoD OIG Comment. Overall, the changes to the quality control and external peer review sections are appropriate and reasonable. The sections capture the requirements specified in other standards, such as the AICPA Quality Control Section 10, “A Firm’s System of Quality Control.” However, the quality control and external peer review sections should expand on the initiation, acceptance, and continuance of audits (pars. 5.12 and 5.13). We recommend this section be consistent with the requirements listed in AICPA Quality Control Section 10, paragraph .28.

Question 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?

DoD OIG Comment. Chapter 5 clearly documents the peer review requirements for each category of audit organization. Paragraph 5.64 provides the listing of audit organizations affiliated with recognized organizations and indicates that paragraphs 5.68 through 5.79 are the additional requirements. Paragraph 5.65 states that any audit organization not affiliated with an organization listed in paragraph 5.64 should meet the minimum GAGAS peer review requirements that follow in the “Requirements for Audit Organizations Not Affiliated with Recognized Organizations” section (paras. 5.80 through 5.113).

Comments on Revision

Chapter 3 – Ethics, Independence, and Professional Judgment

1. **Page 16, par. 3.23, Last Two Sentences.** “The period lasts for the duration of the professional relationship—which, for recurring engagements, could cover many periods—and ends with the formal or informal notification, either by the auditors or the audited entity, of the termination of the professional relationship or with the issuance of a report, whichever is later. Accordingly, the period of professional engagement does not necessarily end with the issuance of a report and recommence with the beginning of the following year’s engagement or a subsequent engagement with a similar objective.”

Recommended Change. Add a sentence before last sentence to read:

For instance, a professional relationship ends when the auditors withdraw from the engagement.

Rationale. Providing an example of when the relationship might be terminated would help clarify when a professional relationship might end without issuance of a report.

2. **Page 19, par. 3.33.e.** “Undue influence threat – the threat that influences or pressures from sources external to the audit organization will affect an auditor’s ability to make objective judgments.”

Recommended Change. Add “internal and” before “external” in the sentence.

Rationale. Both internal and external pressures could affect an auditor’s ability to make objective judgments.

3. **Page 19, par. 3.38, 1st and 2nd Sentences.** “If auditors initially identify a threat to independence after the audit report is issued, auditors should evaluate the threat’s effect on the engagement and on GAGAS compliance. If the auditors determine that the newly identified threat’s effect on the engagement would have resulted in the audit report being different from the report issued had the auditors been aware of it, they should communicate...”

Recommended Change. Insert a sentence between the first and second sentences to read:

The auditors should determine whether the newly identified threat’s effect on the engagement brings its threat level to an unacceptable level or the auditors should have applied additional safeguards if the auditors were aware of the newly identified threat.

Rationale. Auditors should determine the impact of the newly identified threat to independence prior to determining whether the audit report that should have been issued would differ from the one issued.

4. **Page 19, par. 3.38, 2nd Sentence.** “If the auditors determine that the newly identified threat’s effect on the engagement would have resulted in the audit report being different from the report issued...”

Recommended Change. Suggest changing the underlined phrase to “being materially different” or “significantly different.”

Rationale. “Being different” requires additional clarification. For example, the auditors should consider the significance or materiality of the difference when making this decision.

5. **Page 21, par. 3.46d.** “A member of the audit team having a direct financial interest in the audited entity. However, this would not preclude auditors from auditing pension plans that they participate in if...”

Recommended Change. Revise 3.46d.(2) to read:

the auditors belong to such pension plan as part of their employment with the audit organization or prior employment with the audited entity, provided that the plan is offered to all employees in equivalent employment positions.

Rationale. Auditors should be able to audit not only pension plans that they currently participate in due to employment with the audit organization, but also pension plans from prior employment as long as the conditions specified in 3.46d.(1) are also met. The threat to independence appears to be at a similar level.

6. **Page 29, par. 3.80, Last Sentence.** “There are no GAGAS requirements related to these three-party or two-party professional services arrangements.”

Recommended Change. To improve clarity, provide additional information regarding the classification of these arrangements, or remove the entire paragraph from this section.

Rationale. If the purpose of the paragraph is to clarify that GAGAS does not apply to the specific arrangements mentioned, then the paragraph should specify that these professional services are not considered nonaudit services. From placement of the paragraph, the implication is that these services are nonaudit services. In past editions of GAGAS, the auditing communities understood that if

an auditor's work was not classified as an audit, the common defaults were nonaudit services.

7. **Page 30, par. 3.87.** “Auditors may be able to provide nonaudit services in the broad areas indicated in paragraphs 3.88 through 3.101 without impairing independence if...”

Recommended Change. Revise to read:

Auditors may be able to provide nonaudit services in broad areas without impairing independence if (1) the nonaudit services are not expressly prohibited by paragraphs 3.88, 3.90, 3.92, 3.93, 3.97, 3.99, 3.101 or another paragraph, ...

Rationale. Paragraph 3.87 currently reads that nonaudit services may be provided in the broad areas identified in paragraphs 3.88 through 3.101 without impairing independence. Some paragraphs specify that certain nonaudit services are “expressly prohibited.” Recommend revising to clarify which paragraphs discuss or identify nonaudit services that are “expressly prohibited.”

8. **Page 32, par. 3.94.** “Separate evaluations are sometimes provided as nonaudit services by individuals who are not directly involved in the operation of the controls being monitored.”

Recommended Change. Move paragraph to below the header “Application Guidance: Internal Control Evaluation as a Nonaudit Service,” and remove the format box.

Rationale. Recommend adjusting for accuracy as this paragraph appears to be application guidance.

9. **Page 34, par. 3.102.** “While insufficient documentation of an auditor's compliance with the independence standard does not impair independence, auditors should prepare appropriate documentation under the GAGAS quality control and assurance requirements. The independence standard includes the following documentation requirements, where applicable:”

Recommended Change. Add new item a. and renumber remaining items. Item a. should read:

document the engagement team's significant conclusions on consideration of threats to independence.

Rationale. Add a requirement to document the discussion among engagement team members regarding their consideration of threats to independence. This

information is needed to determine whether the auditors concluded that no threats to independence existed or they did not consider the possibility of threats.

Chapter 4 – Competence and Continuing Professional Education

10. Page 40, par. 4.10. “Roles on the engagement include the following:...”

Recommended Change. Add requirements for additional audit staff roles that are not currently defined in paragraph 4.10. At a minimum, the role of journey level or senior auditor should be included.

Rationale. The current paragraph does not define an auditor role between entry level and supervisory audit roles, a significant gap in responsibilities. See our response to Question 3, under Response to Questions for Commenters, for more information.

11. Page 40, par. 4.15. “Auditors who plan, direct, perform engagement procedures for, or report on an engagement conducted in accordance with GAGAS should complete the GAGAS Qualification requirements as part of developing and maintaining their professional competence...”

Recommended Change. Add requirements for the additional roles of audit staff that are not currently defined in paragraph 4.10. See our response to Question 3.

Rationale. The current paragraph does not clearly define the GAGAS qualification requirement for auditors between entry level and supervisory auditor roles.

12. Page 40, par. 4.16. “For CPE [continuing professional education] to fulfill the GAGAS Qualification requirement, the CPE provider should include in the course content the relevant GAGAS topics listed in paragraph 4.23 and include in the course description wording that indicates that its purpose is to fulfill the GAGAS Qualification CPE requirement.”

Recommended Change. Add a footnote to read:

The CPE provider indication that its purpose is to fulfill the GAGAS qualification CPE requirement does not eliminate the requirement in paragraph 4.21 requiring the auditor to exercise professional judgement, in consultation with appropriate officials in their audit organization, to determine whether subjects are appropriate to satisfy CPE requirements.

Rationale. A requirement or process does not currently exist for CPE providers to have the courses vetted and approved prior to the use of this wording. Any CPE provider could claim its course meets the standard when it does not. Auditors and their audit organization inappropriately could rely on the statement that the course meets the GAGAS requirement.

- 13. Page 43-44, par. 4.30, last sentence.** “The Audit Organization may not grant exceptions for reason such as workload, budget, or travel constraints.”

Recommended Change. Revise to read:

The Audit Organization should not grant exceptions for reason such as workload, budget, or travel constraints.

Rationale. The use of “may” provides the audit organization with the authority to determine whether workload, budget, or travel constraints are acceptable reasons for an exception. Due to the significance of this requirement, “may” should be replaced with the word “should.”

- 14. Page 45, par. 4.35, last sentence.** “The number of hours granted may be based on the CPE provider’s recommended number of CPE hours for the program.”

Recommended Change. Revise to read:

The number of hours granted should be based on the CPE provider’s recommended number of CPE hours for the program.

Rationale. Paragraph 4.35 allows the audit organization to determine whether they will grant CPE credit for individual study programs. The number of hours granted “should” be based on the CPE provider’s recommended number of CPE hours for the program. The use of “may” in the last sentence appears to give the audit organization the authority to grant less or more CPE than that recommended by the provider.

- 15. Page 45, par. 4.36, 4th Sentence.** “Auditors may not receive CPE hours for either preparation or presentation time for repeated presentations that they make within the 2-year period, unless the subject matter involved was changed significantly for each presentation. The maximum number of CPE hours that may be granted to an auditor as a speaker, instructor, discussion leader, or preparer of course materials may not exceed 40 hours for any 2-year period.”

Recommended Change. Revise to read:

Auditors should not receive CPE hours for either preparation or presentation time for repeated presentations that they make within the 2-year period, unless the subject matter involved was changed significantly for each presentation. The maximum number of CPE hours that may be granted to an auditor as a speaker, instructor, discussion leader, or preparer of course materials should not exceed 40 hours for any 2-year period.

Rationale. Paragraph 4.36 permits the audit organization to determine whether they will grant speakers, instructors, and discussion leaders CPE hours for preparation and presentation time to the extent the subject matter contributes to auditors' competence. However, the section of this paragraph regarding repeated presentations should use "should not" to clearly define the limitations to the granted CPE. Using "may not" in these sentences appears to grant the audit organization the authority to determine whether the auditor may or may not receive CPE hours for either preparation or presentation time for repeated presentations that they make within the 2-year period or the maximum CPE hours may or may not exceed 40 hours for any 2 year period.

16. Page 45, par. 4.37, last sentence. "...However, CPE hours for published writings may not exceed 20 hours for any 2-year period."

Recommended Change. Revise to read:

...However, CPE hours for published writings should not exceed 20 hours for any 2-year period.

Rationale. Paragraph 4.37 allows the audit organization to determine whether they will grant CPE for published articles, books, or materials written by auditors. Further, the last sentence appears to permit the audit organization to grant CPE in excess of 20 hours for any 2-year period.

17. Page 45, par. 4.38, 2nd and 5th sentences. "...An audit organization may define prorated number of hours based on the number of full 6-month intervals remaining in the CPE period....The audit organization may calculate the prorated CPE requirement for the staff members as follows:..."

Recommended Change. Revise to read:

An audit organization should define prorated number of hours based on the number of full 6-month intervals remaining in the CPE period....The audit organization should calculate the prorated CPE requirement for the staff members as follows:...

Rationale. Paragraph 4.38 permits the audit organization to determine whether they will allow auditors hired or assigned to a GAGAS engagement after the beginning of an audit organization's 2-year CPE period to obtain a prorated number of CPE hours. The use of "may" in sentences 2 and 5 allows the audit organization to then determine whether to prorate numbers of hours based on full 6-month intervals or to use a different approach, such as calculating CPE requirements on a monthly basis.

18. Page 45, par. 4.40 3rd and 4th sentences. "...Any CPE hours completed toward a deficiency in one period may be documented in the CPE records and may not be

counted toward the requirements for the next period. Audit organizations that grant the 2-month grace period may not allow auditors who have not satisfied the CPE requirements after the grace period to participate in GAGAS engagements until those requirements are satisfied.”

Recommended Change. Revise to read:

Any CPE hours completed toward a deficiency in one period should be documented in the CPE records and should not be counted toward the requirements for the next period. Audit organizations that grant the 2-month grace period should not allow auditors who have not satisfied the CPE requirements after the grace period to participate in GAGAS engagements until those requirements are satisfied.

Rationale. Paragraph 4.40 allows the audit organization to determine whether they will grant a 2-month grace period. Further, sentence 3 allows the audit organization to determine whether to document the deficiency in the CPE records and to count the CPE towards requirements for the next period. Sentence 4 then permits the audit organization to determine whether to allow auditors who have not satisfied the CPE requirements after the grace period to participate in GAGAS engagements. Due to the significance of the CPE requirement, the GAGAS should require the audit organization to document the deficiency in CPE records and not allow the audit organization to count the CPE used to mitigate the deficiency in one year towards requirements for the next year. Finally, the GAGAS should clearly state that audit organizations should not allow auditors who have not satisfied the CPE requirements after the grace period to participate in GAGAS engagements until those requirements are satisfied.

19. Page 47, par. 4.46, last sentence. “...the auditors may complete at least a prorated number of CPE hours for the 6-month transition period. The number of prorated hours required may be calculated using the method illustrated in paragraphs 4.38 and 4.39.”

Recommended Change. Revise to read:

... the auditors should complete at least a prorated number of CPE hours for the 6-month transition period. The number of prorated hours required should be calculated using the method illustrated in paragraphs 4.38 and 4.39.

Rationale. Paragraph 4.46 should require the audit organization to calculate prorated hours for a transition period due to a change in measurement dates using the method illustrated in paragraphs 4.38, and 4.39. For consistency, the audit organization should calculate the CPE proration for the transition period in the same manner as for other situations requiring proration.

- 20. Page 47, par.4.47.** “The audit organization’s policies and procedures for CPE may address the following.”

Recommended Change. Revise to read:

The audit organization’s policies and procedures for CPE should address the following:

Rationale. Paragraph 4.47 allows the audit organization to determine whether to include in its policies and procedures the items identified in 4.47.a. through e. Due to the significance of the items to the CPE requirement, an audit organization should be required to develop policies and procedures for CPE that cover all the listed items.

- 21. Page 48, par. 4.48.** “Policies and procedures for documentation may address maintaining documentation of the CPE hours completed by each auditor subject to the CPE requirements for an appropriate period of time to satisfy any legal and administrative requirements, including peer review. The audit organization may maintain documentation of CPE or may delegate the responsibility to the auditor and put in place adequate procedures to ensure that its records of CPE hours earned by auditors are supported by the documentation maintained by auditors. Documentation may include the following information:”

Recommended Change. Revise to read:

Policies and procedures for documentation should address maintaining documentation of the CPE hours completed by each auditor subject to the CPE requirements for an appropriate period of time to satisfy any legal and administrative requirements, including a peer review. The audit organization may maintain documentation of CPE or may delegate the responsibility to the auditor, and put in place adequate procedures to ensure that its records of CPE hours earned by auditors are supported by the documentation maintained by auditors. Documentation should include the following information:

Rationale. Paragraph 4.48 allows the audit organization to determine what requirements to include on maintaining documentation of CPE hours. Documentation supporting CPE is essential to satisfy legal and administrative requirements, including verifying compliance with GAGAS CPE requirements during peer reviews. The last sentence permits the auditor or the audit organization to decide which items identified in a through f are included in the CPE completion documentation. Without inclusion of these basic elements in CPE documentation, audit organizations will find it more difficult to support its compliance with the GAGAS requirements. Peer reviewers and others also will take more time when reviewing CPE records for compliance with GAGAS.

Chapter 5 – Quality Control and Peer Review

- 22. Page 66, par. 5.95.** “A selection approach that provides a cross section of all types of work is generally applicable to audit organizations that conduct a small number of GAGAS engagements in relation to other types of engagements.”

Recommended Change. Revise to read:

A selection approach should be used as presented in paragraph 5.69.

The remainder of the paragraph should be eliminated.

Rationale. Rather than duplicate guidance also presented in paragraph 5.69, recommend referring back to paragraph 5.69.

- 23. Pages 67-68, par. 5.98-5.102.** “The peer review team should use professional judgment in deciding the type of peer review rating to issue. The following are the types of peer review ratings.”

Recommended Change. Revise to read:

The peer review team should use professional judgment in deciding the type of peer review rating to issue. The requirements for peer review report ratings and application guidance are presented in paragraphs 5.70-5.74.

Paragraphs 5.99 through 5.102 should be eliminated.

Rationale. Rather than duplicate guidance also presented in paragraphs 5.70-5.74, recommend referring back to those paragraphs, eliminating the duplicative paragraphs, and renumbering remaining paragraphs in this chapter.

- 24. Page 70, par. 5.109-5.113.** “An external audit organization should make its most recent peer review report publicly available. If a separate communication detailing findings, conclusions, and recommendations is issued, the external audit organization is not required to make that communication publicly available. An internal audit organization that reports internally to management and those charged with governance should provide a copy of its peer review report to those charged with governance.”

Recommended Change. Revise to read:

The external audit organization should make its most recent peer review report publicly available. The requirements for the availability of the peer review report to the public and application guidance are presented in paragraphs 5.75-5.79.

Paragraphs 5.110-5.113 should be eliminated.

Rationale. Rather than duplicate guidance also presented in paragraphs 5.75-5.79, recommend referring back to those paragraphs and eliminating the duplicative paragraphs.

Chapter 6 – Standards for Financial Audits

- 25. Pages 72-73, par. 6.05.** “Auditors engaged to conduct financial audits of entities operating outside of the United States should meet the qualifications indicated in the previous paragraph or...”

Recommended Change. Revise the opening statement to read:

...operating outside of the United States should meet the following qualifications:

Rationale. The reference to the previous paragraph (6.04) in paragraph 6.05 opening statement is unneeded because it duplicates item b. that also refers to paragraph 6.04.

- 26. Page 73, par. 6.08.** “One example of a law or regulation requiring an audit that does not specifically identify the entities to be audited is the Single Audit Act Amendments of 1996.”

Recommended Change. Revise to read:

The requirement to communicate does not apply if the law or regulation requiring an audit of the financial statement does not specifically identify the entities to be audited, such as audits required by the Single Audit Act Amendments of 1996.

Rationale. Revise the sentence for clarity as currently written it is a factual statement without application guidance.

- 27. Page 76, par. 6.27, Footnote 35.** “SAS [SAS] 130 para. A16 indicates that the Committee of Sponsoring Organizations of the Treadway Commission’s Internal Control—Integrated Framework and Standards for Internal Control in the Federal Government (GAO-14-704G) provide suitable and available criteria against which management may evaluate and report on the effectiveness of the entity’s internal control over financial reporting.”

Recommended Change. Revise reference from “SAS 130, para. A16” to “AU-C 940.A16.”

Rationale. To provide a more readily available source document. The revision references SAS 130 that is in the codified SASs in AU-C 940, “An Audit of Internal Control Over Financial Reporting that is Integrated with an Audit of Financial Statements.”

- 28. Page 79, par. 6.44, 1st Sentence.** “When noncompliance with provisions of laws, regulations, contracts, or grant agreements or instances of fraud, waste, or abuse have occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings.”

Recommended Change. Revise to read:

When noncompliance or suspected noncompliance with provisions of laws...or instances or suspected instances of fraud...

Rationale. To add clarity to the guidance and consistency with AICPA standards. The revision deletes the phrase “or likely to have occurred” from the guidance. As a result, the revision appears to establish guidance that addresses only “known” instances of noncompliance and fraud, waste, or abuse. However, both AU-C Section 250, “Consideration of Laws and Regulations in an Audit of Financial Statements,” and AU-C Section 240, “Consideration of Fraud in a Financial Statement Audit,” refer to “noncompliance or suspected noncompliance” (AU-C 250.10(c)), and “fraud or suspected fraud” (AU-C 240.10(c)), as part of the auditor’s objectives.

- 29. Page 79, par. 6.44.** “When noncompliance with provisions of laws, regulations, contracts, or grant agreements or instances of fraud, waste, or abuse have occurred, auditors may consult with authorities or legal counsel about whether publicly reporting such information would compromise investigative or legal proceedings. Auditors may limit their public reporting to matters that would not compromise those proceedings and, for example, report only on information that is already a part of the public record.”

Recommended Change. Add new paragraph or add sentence to paragraph 6.44 stating:

When auditors conclude, based on sufficient, appropriate evidence, that noncompliance with provisions of laws, regulations, contracts, or grant agreements or fraud, waste, or abuse either has occurred or is likely to have occurred that is material to the audit objectives, they should report the matter as a finding.

Rationale. Whether a particular act is fraud or noncompliance may be subject to a court of law or other adjudicative body. The AICPA standards define fraud as an “intentional act” although an audit is not designed to determine intent.

Therefore, the application guidance should clarify that the auditors should report known or likely fraud.

- 30. Page 79, par. 6.48, 1st Sentence.** “Auditors should report noncompliance with provisions of laws, regulations, contracts, and grant agreements and instances of fraud, waste, or abuse directly to parties outside the audited entity in the following two circumstances.”

Recommended Change. Revise to read:

Auditors should report noncompliance or suspected noncompliance with provisions of laws...and instances or suspected instances of fraud...

Rationale. To add clarity to the guidance and consistency with AICPA standards. The revision deletes the phrase “known or likely” from the guidance. As a result, the revision appears to establish guidance that addresses only “known” instances of noncompliance and fraud, waste, or abuse. However, both AU-C Section 250, “Consideration of Laws and Regulations in an Audit of Financial Statements,” and AU-C Section 240, “Consideration of Fraud in a Financial Statement Audit,” refer to “noncompliance or suspected noncompliance” (AU-C 250.10(c)), and “fraud or suspected fraud” (AU-C 240.10(c)), as part of the auditor’s objectives. Specifically, AU-C 250.21 through .27 addresses “Reporting of Identified or Suspected Noncompliance” to those charged with governance or to regulatory and enforcement authorities. Additionally, AU-C 240.39 through .41 “Communications to Management and With Those Charged with Governance,” discuss reporting “if the auditor has identified a fraud or has obtained information that indicates that a fraud may exist...” Finally, AU-C 240.42, “Communications to Regulatory and Enforcement Authorities,” discusses “if the auditor has identified or suspects a fraud...”

- 31. Page 80, par. 6.48(b), 1st Sentence.** “When audited entity management fails to take timely and appropriate steps to respond to fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or instances of waste or abuse that (1) are likely to have a material effect on the subject matter and (2) involve funding received directly or indirectly from a government agency, auditors should first report management’s failure to take timely and appropriate steps to those charged with governance.”

Recommended Change. Revise to read:

When audited entity management fails to take timely and appropriate steps to respond to fraud or suspected fraud; noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, and grant agreements; or instances or suspected instances of waste or abuse...

Rationale. To add clarity to the guidance and consistency with AICPA standards. The revision deletes the phrase “known or likely” from the guidance. As a result, the revision appears to establish guidance that addresses only “known” instances of noncompliance and fraud, waste, or abuse. However, both AU-C Section 250, “Consideration of Laws and Regulations in an Audit of Financial Statements,” and AU-C Section 240, “Consideration of Fraud in a Financial Statement Audit,” refer to “noncompliance or suspected noncompliance” (AU-C 250.10(c)), and “fraud or suspected fraud” (AU-C 240.10(c)), as part of the auditor’s objectives. Specifically, AU-C 250.21 through .27 addresses “Reporting of Identified or Suspected Noncompliance” to those charged with governance or to regulatory and enforcement authorities. Additionally, AU-C 240.39 through .41 “Communications to Management and With Those Charged with Governance,” discuss reporting “if the auditor has identified a fraud or has obtained information that indicates that a fraud may exist...” Finally, AU-C 240.42, “Communications to Regulatory and Enforcement Authorities,” discusses “if the auditor has identified or suspects a fraud...”

Chapter 7 – Standards for Attestation Engagements and Reviews of Financial Statements

- 32. Page 88, par. 7.30(a), 1st Sentence.** “Before the date of the examination report, document supervisory review of the evidence that supports the findings, conclusions, and recommendations contained in the audit report.”

Recommended Change. Revise to read:

...and recommendations contained in the examination report.

Rationale. To provide consistency. The sentence discusses the examination report.

- 33. Page 89, par. 7.36, 1st Sentence.** “When auditors comply with all applicable GAGAS requirements, they should include a statement in the audit report that they conducted the examination in accordance with GAGAS.”

Recommended Change. Replace the word “audit” with “examination” as follows:

...should include a statement in the examination report...

Rationale. To provide consistency. The sentence discusses the examination engagement.

- 34. Page 89, par. 7.39.** “Auditor should include in the examination report all identified internal control deficiencies, even those communicated early, that are considered to be significant deficiencies or material weaknesses.”

Recommended Change. Recommend the application guidance in paragraph 7.40 or the requirement be updated with an explanation of how to comply with the GAGAS 7.39 requirement when a disclaimer of opinion is reported. For example, would it be appropriate to present the description of the internal control deficiencies as an appendix to the disclaimer report? If so, should auditors be prohibited from using certain language in the appendix to prevent the disclaimer of opinion from being overshadowed?

Rationale. GAGAS requires “auditors should include in the examination report all identified internal control deficiencies...” However, neither the requirement nor the application guidance explains how the auditors should report internal control deficiencies when a disclaimer of opinion is reported. The report presentation of the internal control deficiencies, if not done correctly, may confuse the reader and result in the appearance of a piecemeal opinion.

- 35. Page 90, par. 7.41, 1st Sentence.** “When auditors conclude, based on sufficient, appropriate evidence, that any of the following has occurred, they should include in their examination report the relevant information about...”

Recommended Change. Revise to read:

...that any of the following has occurred or is likely to have occurred, they should...

Rationale. To add clarity to the guidance and consistency with AICPA standards. The revision deletes the phrase “or is likely to have occurred” from the guidance. As a result, the revision appears to establish guidance that addresses only “known” instances of noncompliance and fraud, waste, or abuse. However, AT-C 205, “Examination Engagements,” refers to “noncompliance or suspected noncompliance” and “fraud or suspected fraud” (AT-C 205.33) as part of the auditor’s procedures regarding fraud, laws, and regulations.

- 36. Page 90, par. 7.41.** “When auditors conclude, based on sufficient, appropriate evidence, that any of the following has occurred, they should include in their examination report the relevant information about...”

Recommended Change. Recommend the application guidance for the paragraph 7.41 requirement be updated with an explanation of how to comply with the requirement when a disclaimer of opinion is reported. For example, would it be appropriate to present the description of the noncompliances and instances of fraud, waste, or abuse as an appendix to the disclaimer report? If so, should auditors be prohibited from using certain language in the appendix to prevent the disclaimer from being overshadowed?

Rationale. Paragraph 7.41 requires “when auditors conclude, based on sufficient, appropriate evidence, that any of the following has occurred, they should include in their examination report the relevant information about noncompliances...” Neither the requirement nor the application explains how the auditors should report noncompliances, fraud, waste, or abuse when a disclaimer of opinion is reported. The report presentation of the noncompliances and instances of fraud, waste, or abuse, if done incorrectly, may confuse the reader and result in the appearance of a piecemeal opinion.

- 37. Page 90, par. 7.46.** “Auditors should place their findings in perspective by describing the nature and extent of the issues being reported and the extent of the work performed that resulted in the findings. To give the reader a basis for judging the prevalence and consequences of the findings, auditors should, as appropriate, relate the instances identified to the population or the number of cases examined and quantify the results in terms of dollar value or other measures. If the results cannot be projected, auditors should limit their conclusions appropriately.”

Recommended Change. Revise paragraph 7.46 to clarify reporting requirements when the results of the examination are based on sampling techniques or a targeted selection. For sampling techniques, the auditors should describe the sample design and state why the design was chosen, including whether the results can be projected to the intended population. For a targeted selection, the auditors should describe the selection parameters, number of items in the selection, dollar value of selection, and the errors observed. Also, the report should include a statement that the results from targeted selection were not projected to the universe.

Rationale. As with Performance audits, use of sampling and targeted selection methods are prevalent in examinations. However, the examination reporting requirement in paragraph 7.46 does not specifically address these techniques as discussed in the performance audit paragraphs 8.105 and 9.13. Also missing from paragraphs 7.46 and 9.13 is how to report results from targeted selection.

- 38. Page 91, par. 7.48, 1st Sentence.** “Auditors should report noncompliance with provisions of laws, regulations, contracts, and grant agreements and instances of fraud, waste, or abuse directly to parties outside the audited entity in the following two circumstances.”

Recommended Change. Revise to read:

Auditors should report noncompliance or suspected noncompliance with provisions of laws...and instances or suspected instances of fraud...

Rationale. To add clarity to the guidance and consistency with AICPA standards. The revision appears to establish guidance that addresses only “known” instances of noncompliance and fraud, waste, or abuse. However, AT-C 205, “Examination

Engagements,” refers to “noncompliance or suspected noncompliance” and “fraud or suspected fraud” (AT-C 205.33) as part of the auditor’s procedures regarding fraud, laws, and regulations.

Chapter 9 – Reporting Standards for Performance Audits

- 39. Page 126, par. 9.13.** “In reporting audit methodology, auditors should explain how the completed audit work supports the audit objectives, including the evidence-gathering and evidence-analysis techniques, in sufficient detail to allow knowledgeable users of their reports to understand how the auditors addressed the audit objectives.”

Recommended Change. Revise paragraph 9.13 to clarify the reporting requirements when the results of audit are based on a targeted selection. The auditors should describe the selection parameters, number of items in the selection, dollar value of selection, and the errors observed. Auditors also should state that the results of the targeted selection were not projected to the universe.

Rationale. Paragraph 8.105 mentions that a targeted selection is an appropriate selection technique when a representative sample is not needed. The reporting requirements in paragraph 9.13 indicate that auditors should describe the sample design, why the design was chosen, and whether the results can be projected. However, the reporting requirement does not address how to report the results of a targeted selection.