



June 26, 2017

Mr. James R. Dalkin
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Washington, D.C. 20548

Mr. Dalkin:

We appreciate GAO's ongoing efforts to revise the Yellow Book and provide further clarity, context, and explanation. In particular, separating the requirements from the application guidance is a valuable improvement for the Yellow Book's users. We hope that our comments will provide value as GAO moves toward finalization and issuance of the new Yellow Book.

1. **Para. 2.06.** Since auditors are required to have an understanding of interpretations issued by GAO, and which have the same authority as the application guidance in GAGAS, how will GAO give notice that any such interpretations have been issued?
2. **Para. 2.17.** It would be helpful also to make reference to the specific sections of the standards concerning reporting on compliance with GAGAS on financial audits, attestation engagements, and performance audits. We suggest the following alternative language: "When auditors are required to conduct an engagement in accordance with GAGAS or are representing to others that they did so, they should cite compliance with GAGAS in the audit report as set forth in paragraphs 2.16 through 2.17 and, as applicable, paragraph 6.32 for financial audits, paragraphs 7.36, 7.77, and 7.88 for attestation engagements, and paragraphs 9.02 through 9.04 for performance audits."
3. **Paras. 3.35 through 3.37.** As written, the requirements in these paragraphs do not acknowledge the auditor's consideration of *significance* as described in Para. 3.28b or as depicted in Figure 1 at the end of Chapter 3. Threats to independence must first be assessed



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for significance before moving on with determining whether identified threats are at an acceptable level or identifying and applying safeguards. Based on the Independence Framework depicted in Figure 1 at the end of Chapter 3, the auditor is only required to identify and apply safeguards to eliminate or reduce the threat to an acceptable level when a threat to independence is first determined to be significant either individually or in the aggregate.

4. **Paras. 5.77 and 5.111.** These requirements specifically reference obtaining a peer review report when seeking to enter into a contract to conduct a *performance* audit in accordance with GAGAS. We believe this requirement should also include financial audits and attestation engagements since audit organizations may also seek to enter into a contract to conduct a financial audit or attestation engagement in accordance with GAGAS. We suggest the following alternative language: “Because information in peer review reports may be relevant to decisions on procuring audit services, an audit organization seeking to enter into a contract to conduct an audit or attestation engagement in accordance with GAGAS should provide the following to the party contracting for such services when requested...”
5. **Page 59, External Peer Review Section.** It was not clear upon first read that there are three parts to the External Peer Review section. It may be helpful to have lead-in language that provides this orientation for the reader along with the specific paragraph references. We suggest the following alternative language to appear right after the External Peer Review section header: “This section provides requirements and application guidance for external peer reviews and is divided into three subsections, as follows: (1) general requirements and guidance applicable to all audit organizations (paragraphs 5.63 through 5.67), (2) requirements and guidance applicable to those audit organizations that affiliate with a recognized peer review organization or program (paragraphs 5.68 through 5.79), and (3) requirements and guidance applicable to those audit organizations that do not affiliate with a recognized peer review organization or program (paragraphs 5.80 through 5.113).”
6. **Paras. 5.70-5.74 and 5.98-5.102.** The requirements and application guidance related to “Peer Review Report Ratings” are identical for audit organizations that affiliate with a recognized organization and those that do not. To minimize duplication, would it be more appropriate to consolidate these common peer review requirements under the External Peer Review: General Requirements section?

7. **Paras. 5.75-5.79 and 5.109-5.113.** The requirements and application guidance related to “Availability of the Peer Review Report to the Public” are identical for audit organizations that affiliate with a recognized organization and those that do not. To minimize duplication, would it be more appropriate to consolidate these common peer review requirements under the “General Requirements” section?
8. **Para. 9.24.** Suggest eliminating the last sentence: “If the written communication is separate from the audit report, auditors should refer to that written communication in the audit report.” This is similar to the use of a management letter on financial audits; however, the requirement that financial audit reports make reference to this separate written communication was eliminated in the 2011 revision to the Yellow Book and it remains absent in the 2017 Yellow Book Exposure Draft. It’s unclear why this requirement should remain for performance audits.
9. **Para. 9.28.** As written, this requirement implies that this written communication should be in the form of a finding in the audit report. However, Para. 9.24 allows for matters that are not significant to the audit objectives but warrant the attention of those charged with governance to be communicated in the report or via separate written communication. It is unclear why separate written communication is not an option in Para. 9.28. It would be helpful to have a more consistent approach between Paras. 9.24 and 9.28 (and also 9.33, see Item #11). Practically speaking, for those matters that are not significant to the audit objectives but warrant the attention of those charged with governance, auditors should have the ability to choose whether to communicate the matters in writing in the audit report or via separate written communication (e.g., a management letter). If GAO’s intent is for auditors to take a different approach for Para. 9.28 than Para. 9.24, then some explanation for the difference would be appropriate in the application guidance.
10. **Para. 9.32.** The language in this paragraph makes use of the word “material,” which is not a concept used in the performance auditing standards. We suggest the following alternative language: “Auditors should report a matter as a finding when they conclude, based on sufficient, appropriate evidence—which may include a legal determination by a court—that instances of fraud, waste, or abuse have occurred and are significant within the context of the audit objectives.”
11. **Para. 9.33.** As written, this requirement implies that this written communication should be in the form of a finding in the audit report. However, Para. 9.24 allows for matters that are not significant to the audit objectives but warrant the attention of those charged with

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governance to be communicated in the report or via separate written communication. It is unclear why separate written communication is not an option in Para. 9.33. It would be helpful to have a more consistent approach between Paras. 9.24 and 9.33 (and also 9.28, see Item #9). Practically speaking, for those matters that are not significant to the audit objectives but warrant the attention of those charged with governance, auditors should have the ability to choose whether to communicate the matters in writing in the audit report or via separate written communication (e.g., a management letter). If GAO's intent is for auditors to take a different approach for Para. 9.33 than Para. 9.24, then some explanation for the difference would be appropriate in the application guidance.

We appreciate the opportunity to review and comment on the 2017 Exposure Draft of *Government Auditing Standards*.

Sincerely,

A handwritten signature in black ink, appearing to read "Dianne E. Ray". The signature is fluid and cursive, with the first name "Dianne" being the most prominent part.

Dianne E. Ray, CPA
Colorado State Auditor