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We have reviewed the 2017 Exposure Draft of the *Government Auditing Standards (GAS)*. Please see below for our responses to the questions for commenters in the Exposure Draft.

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.

FL AG - The new format enhances readability by keeping requirements and related application guidance together. We do offer the following comments and suggested changes:

- a. There were several instances in which examples/illustrations provided by the current GAS in Appendix I, including the following, were not incorporated into the individual chapters of the 2017 Exposure Draft of the GAS:
 - i. Examples of control deficiencies (A.06)
 - ii. Examples of abuse (A.08)
 - iii. Indicators requirements relating to evaluating fraud risk (A.09)
 - iv. Management's role (A1.08)
 - v. Examples of attestation engagement objectives (A2.01)
 - vi. Examples of program effectiveness and results audit objectives (A2.02)
 - vii. Examples of audit objectives related to internal control (A2.03)
 - viii. Report quality elements (A7.02)

To the extent that the above guidance is not already covered by AICPA literature, it may be helpful to retain such guidance in GAGAS.

- b. The requirements in Chapters 1 through 5 are applicable to all GAGAS engagements (including attestation engagements or reviews of financial statements); however, the term “audit reports” is used throughout the Exposure Draft. For clarity, it may be helpful to include in para. 1.23 a definition of the term “audit report” as a report on the results of a GAGAS engagement, whether that engagement is a financial audit, attestation engagement, review of financial statements, or performance audit (similar to the approach used in defining “audited entity”).
- c. The terms “waste” and “abuse” are defined in Chapters 6, 7, and 8. We suggest that these definitions be made substantially similar to the definitions in the Standards for Internal Control in the Federal Government (*GAO Green Book*) or the Internal Control - Integrated Framework.
- d. Additional application guidance and examples would be useful where references are made to the *GAO Green Book* and the Internal Control – Integrated Framework, especially related to internal controls for performance audits.
- e. Paras. 6.35.c. and 7.41.c. require the auditor to report relevant information about “waste or abuse that is material, either quantitatively or qualitatively, ... significant to the audit objectives or to the entity’s operations.” However, the auditor is not required to similarly report relevant information regarding noncompliance or fraud that is significant to the entity’s operations. Also, how the auditor would determine the materiality of waste or abuse that is significant to an entity’s operations and not to the audit objectives is not clear.
- f. We suggest that a reference or footnote be added to para. 8.38.c. to direct the reader to the definition of entity objective in para 1.23.j. Also, it may be helpful for the entity objective definition in para. 1.23.j. to specifically identify the three categories.
- g. Para. 9.09 provides that audit reports should contain the audit results, including findings, conclusions, and recommendations, as appropriate. Para. 9.49 provides that auditors should report conclusions based on the objectives and the audit findings. Also, para. 9.50 states that conclusions are more compelling if they lead to the auditor’s recommendations. We have interpreted that the intent of paras. 9.49 and 9.50 is to provide direction as to how conclusions are to be reported when they are, in fact, determined to be appropriate for inclusion in the audit report. However, we are aware that other auditors have interpreted paras. 9.49 and 9.50 to absolutely require conclusions for every audit objective, even when there is not an associated finding or recommendation. Clarification as to when conclusions are required to be included in audit reports would be helpful.
- h. Para. 9.12 states that, in describing the work performed to address the audit objectives and support the reported findings and conclusions, auditors should, as applicable, explain the relationship between the population and the items tested; identify entities, geographic locations, and the period covered; report the kinds and sources of evidence; and explain any significant limitations or uncertainties based on the auditors’ overall assessment of the sufficiency and appropriateness of the evidence in the aggregate. Para. 9.13 provides how the auditor should report the audit methodology. We have interpreted paras. 9.12 and 9.13 to mean that we must explicitly describe the details of the audit procedures performed in the Objectives, Scope, and Methodology section of our performance audit reports, regardless of whether the procedure results supported a finding. However, clarification of the

meaning of the phrase “as applicable” in the first sentence of para. 9.12 could be useful to auditors.

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.

FL AG - The guidance is generally clear. We do offer the following comments and suggested changes:

- a. Para. 3.71 could be clarified as to how management could have a responsible individual with sufficient expertise to oversee the nonaudit service and be capable of detecting a material error, omission, or misstatement but, at the same time, not have the expertise to perform or re-perform the service.
 - b. The purpose for addressing certain specific services in para. 3.88 separate from the services described in para. 3.89 is not clear. If the intent is to list services in para. 3.88 that create threats that are so significant that no safeguards could reduce them to an acceptable level, we suggest this be conveyed using language similar to that used in para. 3.69 or 3.93.
 - c. How the example provided in para. 3.25 regarding civil service statutes that permit staff members to seek employment with audited entities would not permit independence in accordance with GAS is not clear. Even absent such statutes, staff members could seek employment with an audited entity and, therefore, necessitate mitigation of the resulting independence impairment.
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?

FL AG - The guidance is generally clear.

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.

FL AG - The topics listed in paras. 4.23 and 4.24 appear to be appropriate and sufficient, and para. 4.24 is not all inclusive, which allows for additional appropriate topics.

Clarification may be necessary, however, to allow for the GAGAS training given that para. 4.43 states that “examples of programs and activities that do not qualify for CPE hours under GAGAS include, but are not limited to ... b. basic or elementary courses in subjects and topics in which auditors already have the knowledge and skills being taught.” For most state auditors, courses in subjects or topics in which auditors already have the knowledge and skills would most likely include the GAGAS training required by para. 4.15.

Also, the requirement for auditors who are assigned to supervisory or partner and director roles to obtain their GAGAS Qualification before completing work on their first GAGAS engagement may be problematic depending on when the final version of the revised GAGAS is issued. For example, if audit firms are in the 8th or 9th month of an audit under Uniform Guidance, it may be difficult to timely obtain the required training.

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?

FL AG - The guidance is generally clear. We do offer the following comments and suggested changes:

- a. Regarding para. 4.30, we suggest adding guidance on how to determine the portion of the CPE requirement that may be exempted. It would seem that the portion exempted should be somewhat commensurate with the duration of the extended absence.
 - b. The first sentence in para. 4.38 appears to be very similar to the content of para. 4.28. We suggest combining the paragraphs or moving the information in para. 4.28 immediately before para. 4.38.
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?

FL AG - The changes generally appear appropriate and reasonable. However, we believe that para. 5.21 requiring audit organizations to establish policies and procedures that require experienced engagement team members to review the work of less experienced team members should be considered a general requirement for the organizations and allow for appropriate exceptions. For example, an engagement team member with 10 years of relevant experience would clearly be sufficiently qualified to review the work of an engagement team member with more than 10 years of similar experience.

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?

FL AG - The guidance is generally 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.

FL AG - The guidance is generally clear. Regarding the qualifications auditors must meet to conduct engagements, paras. 7.08.b., 7.70.b., and 7.83.b. refer to “a nongovernment audit organization that meets the organizational requirements of...” paras. 7.07, 7.69, and 7.82, but those referenced paragraphs do not prescribe “organizational” requirements. Also, the lead-in sentences (i.e., paras. 7.08, 7.70, and 7.83) appear to sufficiently reference the auditor qualifications.

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?

FL AG - These sections adequately address internal control considerations.

Thank you for the opportunity to respond. Should you have any questions regarding the above, please feel free to call me or Jennifer Blanca at ([REDACTED])

Sincerely,

A handwritten signature in blue ink that reads "Sherrill F. Norman". The signature is written in a cursive style with a large initial 'S' and a distinct 'F'.

Sherrill F. Norman, CPA

SFN/jkb