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Sent: Friday, June 30, 2017 8:00 AM
To: Yellow Book Comments
Cc: [Redacted]
Subject: Yellow Book Comments - GSA OIG
Attachments: Yellow Book - 2017 Exposure Draft GSA OIG Comments.docx
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Office of Audits
Office of Inspector General
U.S. General Services Administration

Please find attached the GSA OIG's comments to the Yellow Book 2017 Exposure Draft. Thank you for your consideration. If you have any comments or questions, please contact Lisa Blanchard, Director, Audit Planning, Policy, and Operations Staff [Redacted]

Thank you,

IF YOU HAVE ANY QUESTIONS, PLEASE RESPOND USING THE CONTACT INFORMATION PROVIDED ABOVE. THIS MAILBOX IS UNABLE TO RECEIVE EMAILS.

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GSA OIG Comments to Yellow Book - 2017 Exposure Draft

1. §1.18 – *The auditors’ conclusion addresses whether the results of that measurement or evaluation are free from material misstatement.*
 - **Comment:** Per SSAE 18, this statement refers only to examinations. The exposure draft associates this statement with all types of attestation engagements.

In addition, although the SSAE uses the term extensively, this is the only reference in the entire exposure draft to ‘material misstatements.’ Also, §1.18a provides that an examination *consists of obtaining sufficient, appropriate evidence to express an opinion on whether the subject matter is based on (or in accordance with) the criteria in all material respects or the assertion is presented (or fairly presented), in all material respects, based on the criteria.*
 - **Suggested Action:** Material misstatements are not mentioned in the context of examination opinions. Therefore, we suggest removing this term from the exposure draft.

2. §1.20 – *In a performance audit, the auditors measure or evaluate the subject matter of the audit and present the resulting information as part of, or accompanying, the audit report.*
 - **Comment:** We are not sure what “resulting information” means. Does it mean findings and conclusions? Also, we are unclear on what would need to accompany an audit report. Any information relevant to the subject matter, conclusions, or findings would be incorporated into the report itself.
 - **Suggested Action:** Please clarify what you mean by “resulting information” and how would this be implemented during an audit and/or incorporated into an audit report.

3. §3.24 – *Under some conditions, the party requesting or requiring an engagement, referred to as the engaging party, will differ from the party responsible for the engagement’s subject matter, referred to as the responsible party. Under such conditions, the GAGAS independence requirements apply to the relationship between the auditors and the responsible party, not the relationship between the auditors and the engaging party. The following are examples of conditions under which the party requesting an engagement may differ from the party responsible for the engagement’s subject matter.*
 - c. *A government department works with a government agency that conducts examination-level attestation engagements of contractor compliance with the terms and conditions of agreements between the department and the contractor. GAGAS requires that the auditors be independent of the contractors.*

- **Comment:** We disagree with the notion that the auditors do not have to be independent of the engaging party, specifically with regards to Example c. Example c. describes one of our current functions as an audit organization. The fact is that, although we deal directly with contractors in order to conduct our examination-level attestation engagements, we also retain a responsibility to review the effectiveness of the government department in negotiating and/or implementing the results of our attestation engagements. Although we may “work with” the government department, we only provide recommendations, we do not participate in management decisions. Therefore, we would argue that, at least for our circumstances, GAGAS requires that auditors be independent of both the contractors and the government department.
- **Suggested Action:** Remove the statement that auditors do not have to be independent of the engaging party when it is different from the responsible party or word it in a way that the auditors can use professional judgement to determine whether there is a need to be independent of the engaging party when it differs from the responsible party.

4. §4.10 – *Roles on the engagement include the following:*

- **Comment:** We do not understand why there’s no role assigned for the Auditor-In-Charge or Senior Auditor. It goes from entry level straight to supervisory with no role in between. We don’t feel this captures all the roles common in a project team.
- **Suggested Action:** Include an Auditor-In-Charge/Senior Auditor position with a corresponding description.

5. §4.16 – *For CPE 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.*

- **Comment:** There is an assumption that CPE providers will be required and ready to offer GAGAS Qualified training when the exposure draft is made final. Is this true?
- **Suggested Action:** Clarify the role of the CPE provider in meeting this requirement.

6. §4.43 – *Examples of programs and activities that do not qualify for CPE hours under GAGAS include, but are not limited to, the following:*
- b. basic or elementary courses in subjects and topics in which auditors already have the knowledge and skills being taught;*
- **Comment:** Are we not allowed to provide refresher training and grant CPEs for attendance?
 - **Suggested Action:** Clarify whether refresher training will qualify for CPEs.
7. §5.15 – *Effective recruitment processes and procedures help the audit organization select individuals of integrity who have the capacity to develop the competence and capabilities necessary to perform the audit organization’s work and possess the appropriate characteristics to enable them to perform competently. Examples of such characteristics include meeting minimum academic requirements established by the audit organization and leadership traits.*

§5.16 – The audit organization may use a suitably qualified external person to conduct engagement work when internal resources, for example, particular areas of technical expertise, are unavailable.

§5.17 – Effective performance evaluation, compensation, and advancement procedures give due recognition and reward to the development and maintenance of competent personnel. Steps that an audit organization may take in developing and maintaining competent personnel include the following:

- a. making personnel aware of the audit organization’s expectations regarding performance and ethical principles;*
- b. providing personnel with an evaluation of, and counseling on, performance, progress, and career development; and*
- c. helping personnel understand that compensation and advancement to positions of greater responsibility depend on, among other things, performance quality, and that failure to comply with the audit organization’s policies and procedures may result in disciplinary action.*

§5.18 – The size and circumstances of the audit organization are important considerations in determining the structure of the audit organization’s performance evaluation process. Smaller audit organizations, in particular, may employ less formal methods of evaluating the performance of their personnel.

§5.19 – Objectives of the audit organization’s human resources policies and procedures include

- a. promoting learning and training for all staff to encourage their professional development and to help ensure that personnel are trained in current developments in the profession; and*
- b. helping ensure that personnel and any parties contracted to carry out work for the audit organization have an appropriate understanding of the environment(s) in which the audit organization operates and a good understanding of the work they are required to carry out.*

- **Comment for §5.15 - §5.19:** Is it assumed that we should review this information in our quality control monitoring?
- **Suggested Action §5.15 - §5.19:** Clarify whether our quality monitoring process should include this information.

8. *§5.22 – The audit organization should assign responsibility for each engagement to an engagement partner or director with authority designated by the audit organization to assume that responsibility and should establish policies and procedures requiring*

- a. the audit organization to communicate the identity and role of the engagement partner or director to management and those charged with governance of the audited entity and*
- b. the audit organization to clearly define the responsibilities of the engagement partner or director and communicate them to that individual.*

- **Comment:** We do not understand the purpose of part b. Does this mean we have to inform the engagement partner of his/her responsibilities for every audit? If so, how are they to be communicated? Does it have to be in writing each time?
- **Suggested Action:** Clarify the purpose of this section and how the responsibilities are to be communicated.

9. *§5.23 – The audit organization should establish quality control procedures to help ensure that auditors who are performing work in accordance with GAGAS meet the continuing professional education (CPE) requirements, including maintaining documentation of the CPE completed, the determination of how a subject qualified for CPE, and any exemptions granted.*

- **Comment:** Since this is in Chapter 5: Quality Control and Peer Review, should it be assumed that we review CPEs during our quality control monitoring?
- **Suggested Action:** Clarify whether our quality monitoring process should include this information.

10. §5.24 – *The audit organization should establish policies and procedures designed to provide it with reasonable assurance that:*

- a. appropriate consultation takes place on difficult or contentious issues;*
 - b. sufficient resources are available to enable appropriate consultation to take place;*
 - c. both the individual seeking consultation and the individual consulted document and agree upon the nature and scope of such consultations; and*
 - d. the conclusions resulting from consultations are documented, understood by both the individual seeking consultation and the individual consulted, and implemented.*
- **Comment:** Does this only pertain to contentious audit issues as they relate to the performance of the audit? Since this is in Chapter 5: Quality Control and Peer Review, would this be required to be reviewed under our quality control monitoring?
 - **Suggested Action:** Specify what types of issues are covered regarding the need for policies and procedures on consultation.

11. §6.38 – *If auditors report separately (including separate reports bound in the same document) on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements, they should include a reference in the audit report on the financial statements to those additional reports. They should also state in the audit report that the reports on internal control over financial reporting and on compliance with provisions of laws, regulations, contracts, and grant agreements are an integral part of a GAGAS audit in considering the audited entity’s internal control over financial reporting and compliance. If separate reports are used, the auditors should make the report on internal control and compliance available to users in the same manner as the financial audit report to which it relates.*

- **Comment:** Is it the intent to publish the separate reports in the Agency’s Performance and Accountability Report/Agency Financial Report?
- **Suggested Action:** Clarify whether the separate reports must be published in the Agency’s Performance and Accountability Report/Agency Financial Report.

12. §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.*

- **Comment:** In this event, must the auditor disclose in the report that certain information was omitted?
- **Suggested Action:** Clarify whether the auditor must disclose in the report the certain information that was omitted.

13. §6.48 – *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.*

a. *When audited entity management fails to satisfy legal or regulatory requirements to report such information to external parties specified in law or regulation, auditors should first communicate the failure to report such information to those charged with governance. If the audited entity still does not report this information to the specified external parties as soon as practicable after the auditors' communication with those charged with governance, then the auditors should report the information directly to the specified external parties.*

- **Comment:** The phrase “as soon as practicable” is very subjective.
- **Suggested Action:** State what is required more explicitly.

14. §7.30 - *Auditors should comply with the following documentation requirements.*

b. *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.*

- **Comment:** In the exposure draft, attestation examination engagements are no longer “audits”; however, the exposure draft continues to interchangeably refer to the reports now identified as attestation engagements also as “audits.” This occurs multiple times throughout the exposure draft.
- **Suggested Action:** Be consistent in the terminology used, especially when it comes to terms that were explicitly defined in the exposure draft.

15. §7.80 – *Distribution of reports completed in accordance with GAGAS depends on the auditors’ relationship with the audited organization and the nature of the information contained in the reports. If the subject matter or the assertion involves material that is classified or contains confidential or sensitive information, auditors should limit report distribution. Auditors should document any limitation on report distribution.*

- **Comment:** Where do auditors document the limitation?
- **Suggested Action:** Define where auditors document the limitation.

Enclosure II: Questions for Commenters

The following questions are provided to guide users in commenting on the 2017 exposure draft. We encourage you to comment on these issues and any additional issues that you note. Please associate your comments with specific references to question numbers, paragraph numbers, or both in the proposed standards and provide your rationale for any proposed changes, along with suggested revised language.

Discussion Items:

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.

- **Comment:** *Some of the changes/guidance seem out of place and better suited to a simple reference to other sections of the Yellow Book. The additional guidance on how to comply with the requirements is helpful although some of the guidance seems overly basic and intuitive.*
- **Comment:** *Incorporating the appendix information into the overall body is much more convenient and highlighting the requirements in boxes is a good change. However, we noticed that all mentions of referencing from A7.02 on Report Quality Elements have been removed from the exposure draft. Referencing is a vital part of the quality control process to ensure that reporting statements are correct and supported by facts.*
 - **Suggested Action:** *Without such guidance, there is no criteria for the referencing process. As such, we would suggest putting the referencing guidance into the new version of the Yellow Book.*

- **Comment:** *Additionally, we do not agree with the removal of examples throughout the Yellow Book, including examples of objectives for different types of audits, types of attestation engagements, and types of control deficiencies. We have referred to the examples on numerous occasions when researching guidance to resolve issues.*
 - **Suggested Action:** *Keep examples within the new version of the Yellow Book.*

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.

- **Comment:** *None.*

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?

- **Comment:** *See specific comments and suggested actions for Chapter 4 above.*

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.

- **Comment:** *None.*

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?

- **Comment:** *None.*

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?

- **Comment:** *See specific comments and suggested actions for Chapter 5 above.*

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?

- **Comment:** *None.*

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.

- **Comment:** *See specific comments and suggested actions for Chapter 7 above.*

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?

- **Comment:** *None.*

Overall Comment:

It would have been helpful if GAO provided the rationale for the changes made. This could have been done in a meeting/video conference/webinar setting.