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30 June 2017

Mr. James Dalkin, CPA
Director, Financial Management and Assurance
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Dalkin:

Attached is the response of the Division of State Government Accountability of the New York State Office of the State Comptroller to the 2017 Exposure Draft of the Government Auditing Standards.

Our response is in three parts. First, a response to each of the nine discussion items. Second, some overall comments regarding the proposed revisions, applicable to multiple chapters. Third and final, specific comments by chapter and by paragraph to the proposed changes. On the latter, we have sometimes proposed specific edits to the wording and other times only proposed a general approach.

If you have any questions about our response, please contact me directly at [REDACTED] or [REDACTED].

Sincerely,

A handwritten signature in cursive script that reads "Jennifer B. Paperman".

Jennifer B. Paperman
Quality Assurance Manager

New York State Office of the State Comptroller
Division of State Government Accountability
Comments on the 2017 Exposure Draft of the Government Auditing Standards

I. Responses to Discussion Items

Enclosure II of the 2017 Exposure Draft contained nine discussion items of particular interest to GAO. We are responding to all nine discussion items. As we do primarily performance audits, our response to discussion items focused more on financial audits or on attestation engagements are less detailed.

- 1) The revised format – with the requirements first (clearly labeled and outlined) followed by the applicable guidance – will be much easier for a new auditor to quickly understand what they must and should be doing and for an experienced auditor to find and review something.

However, in several chapters, we found (as discussed elsewhere) that concepts and terms were raised well before they were formally defined. We therefore suggest adding a paragraph to the start of each chapter with the definitions of the key terms (similar to 1.23, which is for the entire document) and then a reference to the paragraphs where the descriptions are. That would also allow for better cross-referencing between chapters. If a concept is raised in one chapter, the footnote could refer the reader to the definition paragraph for the chapter where it is more fully developed rather than having to duplicate the language from chapter to chapter.

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- 2) This section seems clear.

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- 3) Paragraphs 4.09 and 4.10 do clarify the competency required of auditors to some extent. However, the terms “basic”, “intermediate” and “advanced” may be interpreted differently by different organizations and so may need some additional clarification. Also, it is not clear what is meant in 4.10 (c) by “at least an advanced level”. What would be higher than advanced?

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- 4) Requiring four hours of CPE in GAGAS for new auditors and for all auditors when revisions are issued is a good idea. The topics listed in 4.23 seem to cover all aspects of GAGAS, and don’t need to be expanded. Since those topics will also count towards to the 24-hour CPE requirement, additional refreshers/reinforcement could be given as appropriate. Therefore, additional topics for or requirements beyond the 4-hour are unnecessary.
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- 5) Including the CPE guidance in the Yellow Book rather than as a separate document is a good idea. However, it may still be helpful to have a summary document as an appendix that could be used by training departments or by those responsible for documenting CPE requirements, whether administrative staff in the audit organization or individual auditors.
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- 6) The changes to Chapter 5 (Quality Control and Peer Review) make it more clear what is expected. And having a separate chapter for quality assurance reinforces its importance in ensuring that work done meets GAGAS.
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- 7) The requirements for the two categories of audit organization are clear but do overlap significantly. Having a section on general requirements, followed by the additional requirements for each category, would reduce the redundancy as well as emphasize that the two categories have a lot in common.
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- 8) Paragraphs 7.68 through 7.80 appear to be clear and concise about what is required for review attestation engagements and for reviews of financial statements. However, 7.68 may need clarification that the AICPA requirements apply to reviews of financial statements, not to all review attestation engagements. Breaking the first sentence into two may help clarify:

“GAGAS establishes requirements for all review engagements, whether for financial or nonfinancial objectives. Additional requirements for reviews of financial statements are contained in . . .”

- 9) The changes to 8.37 through 8.65 do more clearly describe how internal controls are assessed on performance audits. Further, incorporating the information from the current appendices directly into the body as part of the application guidance is helpful, and makes it more likely that new auditors (and those who need a refresher) will read it without having to be reminded to read the appendices.

However, a newer auditor may need more guidance, either more details in the Yellow Book or explicit reference to the framework. A newer auditor may not know what the three categories of entity objectives are (8.38c) and may not know where to find that information easily. A balance might be to provide a brief summary here, and then a footnote to the source documents (framework) for the more in-depth discussion.

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II. Overall Comments

We have some overall comments regarding the revisions in the 2017 Exposure Draft, applicable to several chapters.

- 1) In many instances, requirements and guidance are currently in the same paragraph. For the 2017 Exposure Draft, all that was done is to move the sentence(s) related to requirements to the start of the section while leaving the sentence(s) related to guidance behind. As a result, the context is lost, leading to confusion for both new auditors and experienced ones.

For example, the 2011 Yellow Book has a list of accounting services that would always impair an auditor's independence, in 3.50. As part of that, 3.50c defines source documents. The 2017 Exposure Draft breaks this into two paragraphs: the requirements in 3.88 and the definition of source documents in 3.91. As a result, there is a disconnect between where the concept of source documents is raised (3.88c) and where the term is defined (3.91), even though both are necessary to ensure compliance with the requirement. Further, although there are only two paragraphs between the two discussions, the phrase "source documents" is only used in 3.88c. If the phrase was used in other requirements, then having the additional guidance after the entire section would be appropriate, to avoid the redundancy of reiterating the same information. As it is, though, it becomes more confusing rather than less to separate the requirement from the explanation.

This could be addressed by adding a definition paragraph to each chapter, as discussed in I-1 above.

- 2) The term "GAGAS engagement" has been used to replace the word "audit", which is clearer. However, there are references to "audited entity" (which should probably be "engaged entity") and also continued references to "audits" instead of "engagements."
- 3) More of the document is in the active voice instead of the passive voice, which is a good thing.
- 4) There are inconsistencies between Chapters 6 and 7 that should be addressed.
 - a. 6.14 and 7.16 both deal with non-compliance, including non-compliance with provisions of the law. However, only 6.14 refers to provisions of the law in its subheading.
 - b. 6.34 covers internal controls; compliance; and waste, fraud and abuse in a single paragraph. In Chapter 7, these are separated between 7.39 and 7.41.
- 5) The definition of waste (6.17) and the expanded requirements to address waste as well as fraud and abuse in both financial and performance audits will assist in ensuring accountability over how taxpayer money is spent.

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III. Specific Comments on the Exposure Draft

Below are some specific comments either by chapter or by paragraph on the proposed changes.

CHAPTER 1

1.20: Eliminated the definition of performance audit (see the first sentence of 2.10 in the 2011 Yellow Book), which should be added to 1.23.

1.23: The definition of “(e) auditor” should be revised to incorporate the description of the work from “(h) engagement team (or audit team)” both to be consistent and to be clear. As written, someone engaged in planning could argue that, since they are not doing audit work, they are not an auditor and so not subject to GAGAS (especially the CPE requirements). Perhaps something along the lines of:

(e) Auditor – An individual engaged in planning, directing, performing or reporting on the results of work done in accordance with GAGAS (including work on audits, attestation engagements, and reviews of financial statements) regardless of job title. Therefore, individuals who may have the title auditor, information technology auditor, analyst, practitioner, evaluator, inspector, or other similar titles are considered auditors in GAGAS.

Alternatively, just refer to the later definition:

(e) Auditor – Any professional staff member of an audit organization that could be assigned to an engagement team (*as defined in (h) below*) regardless of job title. Therefore, individuals who may have the title auditor, information technology auditor, analyst, practitioner, evaluator, inspector, or other similar titles are considered auditors in GAGAS.

CHAPTER 2 = NO COMMENTS

CHAPTER 3

3.03: A minor grammar edit but “essential to” usually indicates a verb while “essential for” usually indicates a noun. So the first sentence ought to start either “Because auditing is essential for government accountability to the public . . .” or “Because auditing is essential to ensure

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government accountability to the public . . .” Probably only jarring because of the repetition of the preposition “to” so close together in the sentence.

3.38: The word “initially” in the first sentence is a bit jarring since we’re talking about after the work is done and the report is issued. Either “If auditors only identify a threat to independence after the audit report is issued . . .” or even dropping the qualifier entirely (“If auditors identify a threat . . .”) would make the point.

3.58 and 3.59: 3.58 establishes guidance for internal auditors, and then 3.59 defines the internal audit function. The order of these two should be flipped, to be less confusing.

3.60 through 3.67: The discussion of independence threats and safeguards flips back and forth rather than flowing in a logical order. It starts with 3.60 and 3.61, with no transition from structural independence to threats not being at an acceptable level. 3.62 through 3.65 discusses safeguards. And then 3.67 moves back to threats. This whole section needs better transitions and structure.

3.80: This paragraph falls between two separate discussions of non-audit services. Logically, it would fit better after 3.101, as it deals with professional services that might not result in a management participation threat.

3.104: The discussion of professional judgement is at the end of Chapter 3. However, several earlier sections (3.21, 3.34, 3.44, 3.61, and 3.84) use the phrase “profession judgment” without reference to 3.104. Adding the definition of professional judgment to the glossary in 1.23 that directs the reader to 3.104 might help, rather than trying to add a footnote every time the phrase is used. Having a definition paragraph for each chapter (as discussed in I-1 above) would also address this issue.

CHAPTER 4

4.11: It would be helpful to move these definitions to 1.23, since the terms “planning”, “directing”, “performing engagement procedures”, and “reporting” are used throughout rather than only in

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this section. Having a definition paragraph for each chapter (as discussed in I-1 above) would also address this issue.

4.11: As written, 4.11 (a) would specifically exclude individuals involved in planning only from compliance with GAGAS and with CPE requirements. However, the definition of “auditor” in 1.23 (e) specifically includes planning for audits as a function of an auditor, regardless of actual title. Right now, as written, these two make it unclear whether individuals assigned to a separate planning unit would be required to get CPEs.

4.50: Clarify that an audit organization doesn’t need to prepare reports on CPE for internal or external distribution and that if an audit organization chooses to maintain CPE documentation for its auditors, then it may want to issue a periodic report. For example:

“Audit organizations are not required to prepare reports on CPE for internal or external distribution. However, audit organizations that maintain documentation on behalf of their auditors may consider preparing a periodic CPE report . . . “

4.47, 4.48 and 4.49 all use “may” to refer to what an audit organization does regarding CPE activities. Although these paragraphs provide application guidance rather than being actual requirements, in some instances, “should” might be more appropriate. For example, the last sentence in 4.48 before the lettered bullets says “Documentation may include the following information. . .” and implies that neither an auditor nor an audit organization needs to document any of the items as support for CPE. Perhaps add something to the requirements for this section of the chapter (Paragraphs 4.15 through 4.19) to say what should be required as documentation, such as:

“Whoever maintains documentation on CPE, whether the audit organization or the individual auditors, must retain sufficient evidence to show when the CPE were earned, how many, and for what topics.”

That would then lead naturally into 4.47, 4.48 and 4.49, which could use “may” to show what types of information would meet the requirement.

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CHAPTER 5

Chapter 5 (and elsewhere) refers to “reasonable assurance”, a term that ought to be clearly defined.

5.08 and 5.09: The individual auditors also have a responsibility to notify their supervisor or other appropriate individual when they have an independence issue with a particular engagement. Expand on the application guidance with an additional paragraph reminding auditors that even if the audit organization as a whole is independent, an individual auditor may not be. Therefore, if they learn about an independence impairment for a specific engagement, the auditor should notify the appropriate parties in their organization immediately, especially if they work for an organization that uses annual independence certification only.

5.23: Since 4.48 states that the audit organization may delegate responsibility for maintaining CPE documentation to the individual auditors, should refer back to that paragraph here, either as a footnote or rewrite to read “. . . including who has the responsibility for maintaining documentation of the CPE completed . . .”

And to tie back into an earlier comment, perhaps also add something here along the lines of “. . . the determination of how a subject qualified for CPE, sufficient evidence of the CPE earned (including when and how many), and any exemptions granted.”

5.70 and 5.98 have identical wording, as do 5.75 and 5.109. Move those up to the general requirements for peer review (5.63 through 5.65) rather than repeating the same information twice.

CHAPTER 6 = NO COMMENTS

CHAPTER 7

7.01: Although up front the definitions make it clear that attestation engagements include both financial and non-financial objectives, the wording here (“attestation engagements and reviews of financial statements”) could read to an inexperienced person as meaning that attestation

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engagements only apply to financial statements. Perhaps change the first sentence to include the definition from .1.8:

“. . . attestation engagements **(whether for financial or nonfinancial objectives)** and reviews of financial statements . . .”

There needs to be a clearer break between the sections on Review Attestation Engagements and Reviews of Financial Statements (page 94) and Agreed-Upon Procedures Engagements (page 97). Perhaps just one or two blank lines would be enough, but needs something to make it clear to the reader that the requirements about to be discussed are for a different type of engagement. Especially if someone is trying to get up to speed on a particular type of engagement.

CHAPTER 8

The topics are mostly laid out in a sensible order. However, as currently laid out, Chapter 8 (Fieldwork Standards for Performance Audits) would be confusing for a new auditor as it introduces concepts in one place and has the guidance for those concepts much later in the chapter. For example, 8.06 states “Auditors should design the methodology to obtain sufficient, appropriate evidence that provides a reasonable basis for findings and conclusions based on the audit objectives and to reduce audit risk to an acceptable level.” However, the topic of evidence isn’t raised until 8.88, with “sufficient” covered in 8.97 to 8.99 and “appropriate” covered in 8.100 to 8.101. Further, developing findings is currently buried in with evidence. Given its importance, this ought to be a separate section, similar to supervision or audit documentation. Finally, the current section and subsection headings aren’t always clear as to what they mean. A more logical structure for Chapter 8 would be:

- Introduction (8.01 to 8.02)
- Evidence
 - Sufficient and Appropriate Evidence (8.88 to 8.92)
 - Application Guidance (8.93 to 8.96)
 - Sufficiency (8.97 to 8.99)
 - Appropriateness (8.100 to 8.101)
 - Identifying Sources of Evidence and the Amount and Type Required (8.77 to 8.78)
 - Application Guidance (8.102 to 8.105, 8.79)
 - Overall Assessment of Evidence (8.106 to 8.108)
 - Application Guidance (8.109 to 8.113)
- Planning
 - Planning the Engagement (8.03 to 8.07)

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- Application Guidance (8.08 to 8.19)
 - Auditor Communication with the Audited Entity and Others (8.20 to 8.22)
 - Application Guidance (8.23 to 8.25)
 - Assessing the Impact of Investigations or Legal Proceedings (8.26)
 - Application Guidance (8.27 to 8.28)
 - Assigning Staff (8.29 to 8.30)
 - Preparing a Written Audit Plan (8.31)
 - Application Guidance (8.32 to 8.33)
 - Conducting the Engagement
 - Nature and Profile of the Program and User Needs (8.34)
 - Application Guidance (8.35 to 8.36)
 - Internal Controls
 - Consideration of Significance of Internal Controls (8.37)
 - Application Guidance (8.38 to 8.42)
 - Obtaining an Understanding of Internal Controls (8.43)
 - Application Guidance (8.44 to 8.46)
 - Assessing Internal Controls (8.47)
 - Application Guidance (8.48 to 8.51)
 - Considerations of Deficiencies of Internal Controls (8.52)
 - Application Guidance (8.53 to 8.56)
 - Considerations of Information Systems Controls (8.57 to 8.60)
 - Application Guidance (8.61 to 8.65)
 - Provisions of Laws, Regulations, Contracts, and Grant Agreements (8.66)
 - Application Guidance (8.67 to 8.68)
 - Assessing the Impact of Fraud, Waste, and Abuse (8.69 to 8.71)
 - Application Guidance (8.72 to 8.76)
 - Using the Work of Others (8.80 to 8.81)
 - Application Guidance (8.82 to 8.84)
 - Developing Findings (8.114 to 8.115)
 - Application Guidance (8.116 to 8.124)
 - Supervision (8.85)
 - Application Guidance (8.86 to 8.87)
 - Audit Documentation
 - Audit Documentation (8.125 to 8.129)
 - Application Guidance (8.130 to 8.132)
 - Availability of Individuals and Documentation (8.133)
 - Application Guidance (8.134)
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Chapter 8: Several places (8.05, 8.06, 8.09, and especially 8.11) use the word “methodology” to refer to the audit work being planned. To make it clear that this is separate from the methodology used for an analysis or for sampling work, use the phrase “audit methodology” instead. Having a definition paragraph for each chapter (as discussed in I-1 above) would also address this issue.

8.06 (and other paragraphs): Anywhere that refers to “sufficient, appropriate evidence” probably ought to have a footnote to the paragraphs where those terms are defined.

8.38 (c) ought to include the three categories and then have a footnote directing the reader to the COSO Framework for more details. (See Discussion Item I-9 for more about this.)

8.37 (d) ought to include the five components and then have a footnote directing the reader to the COSO Framework for more details. (See Discussion Item I-9 for more about this.)

8.43: This paragraph (and its related guidance paragraphs) deals with obtaining an understanding of internal control significant to the audit objective. Paragraph 8.37 deals with documenting the significance of internal control to the audit objective. Given how inter-related these two concepts are, have the two requirements together, under the subheading “Obtaining and documenting the significance of internal control to the audit objective”. Then, have the guidance from both sections together.

8.47: The introductory phrase (“To the extent that internal control is significant to the audit objective . . .”) implies that there are times when internal control would not be significant to the audit objective. A more appropriate introductory phrase might be “For internal control that the auditors identify as significant to the audit objective . . .”, which makes it more clear that the auditors are not expected to assess all internal control, only that portion relevant to what they are currently auditing.

8.95: Currently, the standards do not require a representation letter for performance audits. The AICPA requires one for financial audits, but it only covers the presentation of the financial statements. This ought to be a requirement for performance audits, too, though perhaps with a “should” rather than a “must” to cover internal auditors at government agencies. Whether it becomes a requirement or remains only a suggestion, the description of the contents should be

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expanded to include a statement of management’s responsibility for establishing a system of internal controls (as described in 3.73 (g)) and that, in addition to certifying to the accuracy and completeness of information provided, management also certifies that they have disclosed all irregularities, deficiencies, non-compliance, and legal actions relevant to the audit objective. Bottom line: to be useful, a representation letter needs to have management stating they have not lied to or hidden anything from the auditors, as well as acknowledging that they are responsible for certain activities.

8.117: Refer back to paragraphs 8.17 and 8.18, which also discuss criteria. Having a definition paragraph for each chapter (as discussed in I-1 above) would also address this issue.

8.121: Make it clear that the expectation is that a finding has all five elements unless the audit team can demonstrate that, due to the audit objectives, one or more elements are not necessary.

8.128 (b): As written, this bullet (especially given the use of the word “expectations”) reads like the person who did the work had a preconceived notion and did only work using only evidence that supported that notion. A more clear statement would be:

“the evidence obtained and the work performed (including analytical procedures) to support significant judgments and conclusions . . .”

8.128 (a): Under the guidance, include the language regarding methodology from 7.13 in the 2011 Yellow Book. Auditors ought to be documenting the methodology used in the work papers, not just in the report. After all, if you don’t document it in the work papers, then how can you write something up for the report?

CHAPTER 9

9.52: May want to refer back to management’s responsibilities (3.72 and 3.73), to avoid making recommendations that would impair the auditor’s independence for future work.
