

From: [REDACTED]
To: [Yellow Book Comments](#)
Cc: [REDACTED]
Subject: Yellow Book Proposed Revisions
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Attachments: [image001.wmz](#)
[REDACTED]

Legislative Division of Post Audit

800 SW Jackson, Suite 1200
Topeka, KS 66612-2212
voice: 785.296.3792
fax: 785.296.4482
web: www.kslpa.org

Dear Mr. Dodaro:

Thank you for the opportunity to make suggestions on the exposure draft of the latest version of the Yellow Book. Our overall impression is that the exposure draft represents a continuation of the improvements we have seen through previous revisions.

My team and I have reviewed the proposed revisions and we have a number of comments for your consideration. To the extent possible, we have provided our responses within the framework of the questions laid out in Enclosure II. Our specific suggested changes are italicized.

If you have any questions, or need anything further, please let me know.

Sincerely,



Scott Frank / Legislative Post Auditor / [REDACTED] / www.kslpa.org

Comments from the Legislative Division of Post Audit State of Kansas

1. ***Please comment on how the revised format of GAGAS affects the organization and readability of the standards.*** Our overall impression is that the proposed revisions generally result in clearer guidance and less confusion. There is a clearer distinction between requirements and guidance, and the important information in the current Appendix now is incorporated into the text.

Other comments on Chapter 1:

- Section 1.21 includes “prospective analyses” in the introductory paragraph on possible performance audit objectives, but it has been excluded from the sub-points that follow. Prospective analyses are an important part of what we do, *so we would suggest bringing back the descriptive language from 2011 Section 2.11(d).*
- The list of terms used in GAGAS (Section 1.23) includes definitions of “control objective” and “entity objective.” *We would suggest adding a definition of “audit objective” for completeness.*

2. ***Please comment on whether the revisions related to nonaudit services, discussed in Chapter 3, sufficiently and clearly explain what is required and prohibited under GAGAS.*** Because our office rarely provides nonaudit services, we have no comments in regard to this question.

Other comments on Chapter 3:

- Section 3.33d deals with familiarity threat. We suggest adding the following thought: the threat that aspects of a *past or present* relationship with management or personnel of an audited entity, such as a close or long relationship, or that of an immediate or close family member, will lead an auditor to take a position that is not objective.
- Section 3.46 provides several examples of self-interest threats. Items (a), (b), and (d) are clear examples. On the other hand, item (c) (an auditor discovering a significant error when evaluating the results of a previous professional services provided by a member of the auditor’s audit organization) sounds a lot like self-review threat. Because this example could be placed in either category of threat, it does more to blur the categories than to clarify. *We would suggest removing this example.*

3. ***Do the roles and descriptions described in Chapter 4 clarify the competence required of auditors conducting engagements in accordance with GAGAS? Is the level of proficiency expected for each of these roles clear?*** These appear to be sufficiently clear.

4. ***Please comment on any additional topics that could be included in the Chapter 4 requirement for 4-hour GAGAS CPE, or other requirements that would enhance auditor proficiency in GAGAS.*** The addition of the GAGAS qualification requirement to continuing professional education (Section 4.15) is a welcome addition. However, given the nearly universal consensus that participating in an external quality control review is the best form of Yellow Book training, the continuing prohibition on counting that time as CPE in Section 4.43(g) makes little sense. *We would suggest at least allowing time spent on an external peer review to count as satisfying the four-hour GAGAS qualification requirement.*
5. ***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?*** We think incorporating the contents of the *Guidance on GAGAS Requirements for Continuing Professional Education* document is an excellent change. It appears that the principal points have been incorporated into the exposure draft.
6. ***Are the Chapter 5 changes to the quality control and external peer review sections appropriate and reasonable?*** We like the language clarifying what constitutes Pass, Pass with Deficiencies, and Fail for peer reviews (Sections 5.72 and 5.98). However, the term “material weaknesses” aligns better with the terminology used in financial audits. *We would suggest the following language for Section 5.72 (with similar language used in 5.98):*
- If the peer review team’s evaluation of matters ~~did does~~ not identify any findings (more than a remote possibility that the reviewed audit organization would not perform, report, or both in conformity with applicable standards), or ~~identified identifies~~ findings that are not considered to be deficiencies, the peer review team issues a Pass rating.
 - If the peer review team’s evaluation of ~~matters findings~~ identified deficiencies, but did not identify any ~~that could materially affect the organization’s ability to perform, report, or both in conformity with applicable standards significant deficiencies~~, the peer review team issues a Pass with Deficiencies rating and communicates the deficiencies in its report.
 - If the peer review team’s evaluation of ~~matters deficiencies~~ identified as ~~significant deficiencies that could materially affect the organization’s ability to perform, report, or both in conformity with applicable standards~~, the peer review team issues a Fail rating and communicates the deficiencies ~~and significant deficiencies~~ in its report.
7. ***Are the peer review requirements for each category of audit organization clear?***
Yes.
8. ***Please comment on the expanded requirements and application guidance in Chapter 7 for reviews of financial statements conducted in accordance with GAGAS.*** Because our office does not conduct reviews of financial statements, we have no comments in this area.

9. ***Do the internal control sections in Chapter 8 clearly describe ways auditors assess internal control on performance audits?*** This seems accurate. We particularly like the passage, “A control cannot be effectively implemented if it was not effectively designed. A control cannot be operating effectively if it was not effectively designed and implemented.”

Other comments on Chapter 8:

- We like the addition of “waste” to the performance audit standards (Section 8.75) and agree that it should be treated in a similar fashion as “abuse.” *However, we see a distinction between waste and garden-variety “inefficiency” and would suggest the following clarifying language:*
 - 8.75 Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose. Waste involves the taxpayers not receiving reasonable value for money in connection with any government-funded activities because of an inappropriate act or omission by parties with control over or access to government resources. Importantly, waste can include activities that do not include fraud and abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight. *Further, waste is not the same as inefficiency. While all waste is inherently inefficient, not all inefficiencies rise to the level of waste. Whether an inefficient practice constitutes waste is a matter of professional judgment for the auditors.*
- Section 8.117 provides guidance on sources of criteria for audit findings. In the middle of this section are several sentences which appear to be misplaced and perhaps belong under condition (Section 8.118). *We would suggest moving the highlighted material:*
 - 8.117 Criteria: For inclusion in findings, criteria may include the laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. Criteria identify the required or desired state or expectation with respect to the program or operation. *For audit objectives that pertain to the current status or condition of a program, sufficient, appropriate evidence is gathered to provide reasonable assurance that the description is accurate and reliable and does not omit significant information relevant to the audit objectives. Information addressing the audit objectives is to be provided in an objective, understandable manner. The relative importance of each of the characteristics of the information to a particular engagement is a matter of professional judgment.* The term program includes processes, projects, studies, policies, operations, activities, entities, and functions. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations included in the report.

Comment on Chapter 9:

Thank you for adding the phrase “when internal control is significant within the context of the audit objectives...” to the reporting requirement in Section 9.24. This will eliminate the need to include language on internal controls when internal controls were not relevant.