



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500 JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-1402

PHONE (615) 401-7897  
FAX (615) 532-2765

July 7, 2017

Mr. Jim Dalkin  
Director, Financial Management and Assurance  
U.S. Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Dalkin:

On behalf of the Tennessee Division of State Audit, we thank GAO for the opportunity to comment on the Exposure Draft (ED), *Government Auditing Standards – 2017 Revision*. We generally agree in principle with the proposed amendments. However, we offer the following comments for consideration in issue and/or paragraph order.

**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. **We applaud GAO's efforts to highlight the requirements of the standard. We believe this is an improvement over the existing standard. However, the format is not as user friendly as the clarified format in the AICPA Professional Standards. The boxes format detracts somewhat from the readability of the document. Boxed items representing requirements are not always succinct practices, and some appear to be merely summaries of surrounding information. For ¶1.24, we suggest that GAO further explain that the "application and other explanatory material paragraphs are an integral part of the standard, and the auditor is required to read and understand the entire text of the standard."**

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. **We agree that the revisions are mostly sufficient and clear. However, for ¶3.94-3.95, we understand that separate evaluations**

**might be performed as a non-audit service, but we suggest this service should be part of an integrated audit or a separate attestation engagement rather than a non-audit service evaluation. We believe the majority of these engagements will be in conjunction with the financial statement audit or Single Audit. This course of action would eliminate the threat. The integrated audit part of this needs to be clarified as allowable and not impairing independence. If the scope was the same as the audit but the timing of the engagement was different, why would this be a non-audit service if performed as another type of engagement (e.g., attestation)? We believe additional clarification is needed for these situations. Otherwise, we agree with the conclusion that the significance of the threat would have to be assessed for non-audit services.**

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? **We generally agree that the descriptions are clear; however, we question if this is necessary in the Yellow Book. The information describing roles and levels of proficiency and tasks is information that should be in job descriptions of each audit agency and is not necessary in the Yellow Book. It is also common sense not to put an inexperienced auditor in a supervisory position. We suggest the requirement for auditors should be to disclose in the audit organization’s policies and procedures these roles and responsibilities rather than using the Yellow Book to tell us this.**

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. **We suggest adding professional skepticism and risk assessments with professional judgment. Another topic could be using/applying data analytics in a financial statement audit.**

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? **We believe the guidance is sufficient.**

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? **We believe the changes are appropriate and**

**reasonable. However, the guidance is duplicative unless each section is intended to stand on its own (e.g., ¶5.98-5.99 vs. ¶5.70-5.71 and ¶5.109-5.112 vs. ¶5.75-5.78).**

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? **We believe the requirements are 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. **The expanded requirements and guidance appear appropriate.**

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? **We agree with referencing to the Green Book and COSO. However, for ¶8.47, we believe the requirement or application guidance needs to be clarified that the auditor is not required to opine or conclude on the entity’s operating effectiveness of internal control. Auditors are not precluded from doing so as long as sufficient appropriate audit evidence to opine or conclude has been obtained. This requirement appears similar to that for a Single Audit as required in the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). No such requirement exists for financial statement audits in GAAS and GAGAS. We do not believe there is a substantive difference to require a conclusion on operating effectiveness for performance audits. If an opinion or conclusion on operating effectiveness of internal control was not the intent of this requirement, we suggest clarification is necessary.**

### **General Comments**

1. Overall, the Yellow Book’s level of detail and specificity on each topic seemingly attempts to address every possible situation and application. What should be a book of general standards or foundational principles now reads like a detailed policy and procedure manual. Often used is the phrase, “knowledge, skills, and abilities,” yet the standards are sometimes written as though the auditor has zero level of these. An example is in ¶5.18 (also ¶5.28-5.29): “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.” We don’t believe the role of the yellow book is to tell us this common sense information. In other words, this level of information is not value added in informing the auditor about his/her responsibilities or objectives.

2. For ¶1.02-1.03, we believe the use of "equitably" is unnecessary and irrelevant compared to the other attributes because equitability as an objective could result in inefficient, ineffective, and uneconomical outcomes. We suggest removing the concept.
3. For ¶1.06 and throughout the ED, "government awards" is used. We suggest using "government financial assistance" as a more appropriate term. "Awards" might be too limiting. In addition, "professional judgment" is first used in this paragraph. We believe professional skepticism and professional judgment are integral to each other throughout the iterative audit process. This would be a good location to introduce and link the two concepts.
4. In ¶1.23o, we suggest GAO clarify that a specialist possesses expertise in a field other than accounting and auditing, not just auditing. This change would be consistent with the AICPA Professional Standards.
5. For ¶3.03, the first sentence should read, "Because auditing is essential for government...."
6. For ¶3.40, it seems that "or could reasonably be expected to know" is very subjective and should be based on professional skepticism and professional judgment as a basis for the conclusion. We suggest adding this clarification.
7. For ¶3.47, we believe this circumstance should be clarified to indicate when management refuses to take responsibility for the auditor-prepared original data, a self-review threat exists. This is addressed in ¶
8. For ¶3.51, does it make a difference if statute or law requires the principal to serve in such capacity as a "voting member of an entity's management committee or board of directors, or is this a potential safeguard? We suggest clarifying this common situation.
9. For ¶3.77b, we suggest clarifying that "another auditor, not associated with the engagement, review...."
10. For ¶3.105, we suggest providing additional guidance that professional skepticism takes place after a careful and rigorous initial risk assessment. The "neither dishonest nor of unquestioned honesty" mindset is a neutral perspective but excludes completely trusting audit entity personnel.
11. For ¶4.10c, is "partner" intended to be the engagement partner? If so, it needs to be defined in ¶4.11.
12. For ¶4.11a, we suggest clarifying that the criteria should be "suitable criteria."

13. For ¶4.12, we recommend amending the second sentence to, “Specialists, with expertise in a field other than accounting and auditing, to whom....” This change would be consistent with the AICPA AU-C glossary of terms).
14. For ¶4.23e-f and throughout, GAO refers to financial audits rather than financial statement audits. Are there financial audits that do not encompass the financial statements? If not, we suggest stating “financial statement audits” throughout. In addition, was “review” in f intended to cover both financial statements in the AT-C and SSARS?
15. For ¶6.18, we suggest adding to ¶6.17 (waste) the notion that, “Because the determination of waste is subjective, auditors are not required to perform procedures to detect waste in financial statement audits.” This would be consistent with the same statement for abuse.
16. In the heading to ¶6.651, remove the “to” between “Reporting” and “Findings.”
- 17.

Should you have questions or need clarification on any of our comments, please contact Gerry Boaz, Technical Manager, at [REDACTED] or [REDACTED].

Sincerely,

Deborah Loveless, Director  
Division of State Audit