

AUDIT SERVICES

Oregon Department of Transportation

July 5, 2017

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

Submitted via email to YellowBookComments@gao.gov

Mr. Dalkin,

Thank you for the opportunity to provide comments on proposed changes to the *Government Auditing Standards*. Please find our response below to each of the specific discussion items and questions outlined by GAO.

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.

Overall, the revised format improves the organization and readability of the standards.

In the future, it would be helpful if GAO provided a numerical cross-reference or side-by-side comparison of current and proposed wording to facilitate better evaluation of and comment on exposure drafts.

Comments on items not covered in other questions:

1.08 – What is the significance of “in totality,” which was added to the current standard?

1.23 – More clarity around the classification of an organization as an internal or external audit firm would be helpful. Report distribution appears to be a weak criterion for determining whether an audit organization is internal or external, especially in the absence of a definition for “accountable to” and “issue reports to third parties.” Under the current wording, an independent CPA firm that issues a report to management

might be considered an internal audit organization if one considered that it is accountable to senior management and the governing body through contract terms and conditions. How would GAO classify an audit organization that is accountable to senior management and the governing body but also issues reports to third parties external to the audited entity (e.g., a federal oversight agency)?

General – Do the proposed GAGAS still permit non-CPAs in government audit organizations to perform financial audits and attestation engagements without CPA oversight?

General – Is there anything in GAGAS applicable to financial audits or attestation engagements that could prevent a government audit organization, in the performance of its fiduciary responsibilities, from accessing the work papers that support a GAGAS audit done by a third party (e.g., a CPA firm)? For example, could a CPA firm prevent a state agency audit organization that is reviewing CPA work papers to assure compliance with the Federal Acquisition Regulations from accessing sensitive information such as executive compensation?

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.

3.22 – Could you clarify the meaning of the last statement, which is slightly different from the current wording? Without a comma, we are not sure what is meant – that the auditors’ opinions, findings, conclusions, judgments, and recommendations will be viewed as impartial and reasonable by an informed third party, or that reasonable and informed third parties will view the auditors’ opinions, findings, conclusions, judgments, and recommendations as impartial.

3.24 – As currently worded, “the party responsible for the engagement’s subject matter” could be interpreted to mean the party that sets the audit scope, which would be an infringement on auditor independence. Suggested wording: “. . . the engaging party, will differ from the party accountable for the engagement’s subject matter, referred to as the responsible party.”

3.31 – The wording of this requirement seems awkward when framed in the past tense (“. . . no safeguards have been effectively applied . . .”). It almost sounds as if the determination may be made towards the end of the audit. Potential wording: “Auditors should conclude that independence is impaired if at any point during the audit safeguards needed to eliminate or reduce a threat to an acceptable level are not timely and effectively applied.”

3.80 – Could you provide greater clarity and specific examples around three-party arrangements?

3.93/3.94 – Do these apply to the system of internal control or even to individual components of the internal control system? How would these requirements, and GAGAS in totality, integrate with the concept of “continuous auditing”?

3.105 – What does GAO mean by: “Auditors may accept records and documents as genuine unless they have reason to believe the contrary.”? How does that assertion align with the need to corroborate evidence and/or test controls (e.g., information system controls)?

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?

The roles and responsibilities appear clear but the position titles seem to apply more to a public CPA firm than a government audit organization.

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.

4.23 – As currently worded, the GAGAS Qualification requirement does not adequately assure that auditors have been trained in the significance of all relevant changes in the standards. It would help if, with each revision, GAO provides a summary of minimum information that needs to be included in such 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?

We are not aware of any additional guidance that should be included in GAGAS. However, has GAO considered providing web-based training to state and local government audit organizations on topics that would cover the breadth of proficiency described in GAGAS?

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?

5.24 – Please provide additional clarification and the reasoning behind the added material on consultation. For example, would this section apply to a consultation between an auditor and the Chief Audit Executive about a potentially contentious issue emerging from an audit?

5.26 – Would this requirement apply to fine-tuning audit objectives into reporting objectives?

5.84 – Shouldn't the engagement letter specify that the engagement will be conducted in accordance with GAGAS peer review requirements (current wording leaves out "peer review requirements" and could lead to misunderstanding)?

5.98 – We have concerns about extending the scope of the peer review beyond compliance with auditing standards to include compliance with applicable legal and regulatory requirements. What is the purpose of this expansion of scope?

5.100 – Does the remote possibility requirement apply to the organization as a whole or to discrete types of audits or parts of the audit organization? For example, if financial audits had less than a remote possibility but performance audits had a greater than remote possibility, could the peer review team issue a Pass for Financial and Pass with Deficiencies or Fail for performance audits?

Can peer reviews use the material in GAGAS guidance as criteria or would they be limited to using the unconditional and presumptively mandatory standards (material inside the box)?

Consolidated (and anonymized) findings and comments from peer reviews of GAO, NASACT organizations, local government audit organizations, and private sector firms could be helpful in seeing how standards are interpreted.

5.109 – In the spirit of transparency, why wouldn't GAGAS require that separate communications detailing findings, conclusions, and recommendations be made publicly available (treated the same as peer review reports)?

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?

No comments.

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.

No comments.

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?

Not completely. In our collective experience, steps taken to assess internal control depend on the reason for the assessment, which may be based on the audit objective itself or the need to test controls to obtain sufficient appropriate evidence. Also, the assessment may not cover the entire internal control system (e.g., may only address one component or be developed as the cause element of a finding).

8.51 – Can a control be properly designed and implemented and still not operate effectively? Could you please provide additional examples where it is clear that the control was properly designed and implemented but not operating effectively? We’re not clear on that distinction.

8.55 – Please provide examples of instances in which an audit report should include internal control deficiencies even though those deficiencies were not significant in context of the audit objectives and would not affect the findings, conclusions, or recommendations included in the report.

8.107 – What is meant by “expected significance of evidence”?

Thank you again for the opportunity to review and provide feedback.

Sincerely,



Marlene V. Hartinger, MBA, CPA, CIA
Chief Audit Executive