



July 6, 2017

James Dalkin, Director  
Financial Management and Assurance  
U.S. Government Accountability Office  
441 G St. N.W.  
Washington, DC 30548  
Via E-mail: [YellowBookComments@gao.gov](mailto:YellowBookComments@gao.gov)

Re: Proposed Changes to Government Auditing Standards (commonly known as Yellow Book) – 2017  
Exposure Draft

Dear Mr. Dalkin:

The Not-for-Profit Committee (the committee) of the Pennsylvania Institute of Certified Public Accountants (PICPA) appreciates the opportunity to comment on the proposed changes to the Yellow Book. The PICPA is a professional association of more than 22,000 members working to improve the profession and better serve the public interest. Founded in 1897, the PICPA is the second-oldest CPA organization in the United States. Membership includes practitioners in public accounting, education, government, and industry. The committee is composed of practitioners from both regional and small public accounting firms, members serving in financial reporting positions, and accounting educators. Our comments are included below.

### ***Nonaudit Services – Chapter 3***

The committee notes that the guidance beginning at para. 3.67 refers to “nonaudit services” and states that the proposed revisions to the Yellow Book contain a section for review engagements. It is unclear whether the nonaudit service guidance would apply to a practitioner who performs a review engagement. The committee suggests using the broader term “nonattest services” rather than “nonaudit services.”

Para. 3.88 and 3.89 – The committee noted that the first sentences of these paragraphs refer to services, and it is not clear that they relate to “nonaudit services” since other sentences in the section refer specifically to “nonaudit services.” The committee requests that these sentences be clarified to specifically refer to the term “nonaudit services” or “nonattest services.”

Para. 3.97 b indicates that the following would impair independence: “making other than insignificant modifications to source code underlying an audited entity’s existing financial information system or other IT system that will play a significant role in the management of an area of operations that is or will be the subject matter of an audit.” The committee notes that it would be rare to make immaterial modifications to source code, and believes that any such modifications would impair independence.

### ***Competence and Continuing Professional Education – Chapter 4***



Para. 4.02 – The requirement to assign auditors who possess the competence needed “at the time of assignment” to perform their work in accordance with GAGAS seems to go beyond what is needed. In many cases staff can be assigned months prior to an engagement and may obtain training during the period between the assignment of staff and the performance of work on the engagement. Furthermore, as the term “assignment of the staff” is not clear, firms could come up with systems to get around the requirement, such as by using a “pending assignment status” for example.

Para. 4.03 – The requirement for auditors to possess the competence needed for their assigned roles “at the time of assignment” goes beyond what is needed and could be misconstrued. Specifically, the committee believes that the auditee should be required to possess this level of competence “prior to the work being performed” not “at the time of assignment.”

Para. 4.09-4.10 outlines the proposed levels of proficiency required for each role on an engagement as well as a description of the tasks generally expected to be performed by auditors in these roles. We believe that these roles and descriptions only partially clarify the competence required of auditors conducting engagements in accordance with GAGAS.

- The proposed levels of proficiency (basic, intermediate, and advanced) are not defined or described, and it is unclear whether this is intended to be left to the auditee’s judgment.
- The description of an entry-level role includes the following: “plan or perform engagement procedures.” Yet, the descriptions provided later in para. 4.11 seems to indicate that planning would not be part of the role expected for entry-level personnel. This should be clarified. The remaining roles, descriptions, and definitions in paras. 4.10 and 4.11 are clear.

### ***Peer Review – Chapter 5***

Para. 5.21 would require auditors to have experienced engagement team members review the work of less-experienced engagement team members. The committee generally agrees with this provision. However, the committee believes that the requirement should be tailored for sole practitioners. This should not prevent experienced staff from reviewing the work of other experienced staff.

The committee does not support the expansion of the scope of a peer review to include terminated engagements. The decision to terminate an engagement is an important practice management and contractual consideration for the firm. Peer reviewers should not be in a position to second guess a firm’s rationale or legal counsel’s advice for deciding to terminate an engagement. As no audit opinion is issued in a terminated engagement, it is unclear what the peer reviewer would be required to review.

Para. 5.25 requires auditors to document the results of the work to the date of termination and why the engagement was terminated in the event that an engagement is terminated before it is completed. While documenting the rationale for terminating an engagement seems reasonable, the committee notes that this decision could be the result of extensive legal consultation that may



be privileged, and therefore does not support requiring privileged information in the audit workpapers. Furthermore, it is unclear why the firm would be required to ensure that the results of all of the work to date be properly documented as there is no opinion to support, and the firm is not likely to get paid for the completion of any additional documentation.

Para. 5.65 indicates that audit organizations that are not affiliated with one of the organizations noted in 5.64 have a separate list of requirements. The committee notes that many state CPA statutes include peer review requirements that follow the AICPA peer review program. These state board statutes apply to all CPAs, regardless as to whether the CPA is affiliated with the AICPA. The committee does not believe that it is necessary to require firms that follow the AICPA Peer Review Standards to also have to follow the separate proposed guidance at 5.80 through 5.113 simply because they are not affiliated with the designated associations.

Para. 5.82 permits an audit organization that is not subject to peer review requirement to obtain its first peer review covering a review period ending no later than three years from the date an audit organization begins its first GAGAS engagement. The committee believes that the three year period is too long, and supports a shorter time period, such as 18 months to two years.

Para 5.84 requires the peer review team and the reviewed audit organization to have a written agreement. The committee does not support including this contractual issue between the peer review team and the audit organization in the Yellow Book guidance.

### ***Standards for Attestation Engagements and Reviews of Financial Statements – Chapter 7***

Para. 7.01 – The first sentence indicates that the chapter contains guidance and requirements for performing and reporting on attestation engagements and reviews of financial statements conducted in accordance with GAGAS. This is confusing as attestation engagements and reviews are not performed in accordance with the audit standards (i.e., in accordance with GAGAS). Similarly, the next two sentences incorporate the AICPA’s attestation and review standards into the audit standards. It is not clear when a review or attestation engagement guidance would be needed if a practitioner is performing an audit engagement subject to GAGAS.

As a result of merging the attest and review guidance into the audit standards, Chapter 7 includes confusing references to auditors performing review and/or attestation engagements. For example, para. 7.68 notes the following requirement: “Auditors should comply with the additional GAGAS requirements, along with the applicable AICPA requirements, when citing GAGAS in their review engagement reports.” This is thoroughly confusing, as it is unclear which audit requirements (GAGAS) that a practitioner would need to perform in a review engagement, why a review engagement would refer to audit requirements in the review report, and why the review report would refer to an auditor. Other sections add to the confusion by seemingly adding audit requirements to a review engagement (e.g., para. 7.73). This blending of the terminology from the various levels of attestation makes the chapter indecipherable.

Para. 7.01 (and 2.13) states “GAGAS does not incorporate the AICPA Code of Conduct by reference, but recognizes that certain certified public accountants (CPA) may use or may be



required to use the code in conjunction with GAGAS.” If the AICPA Code of Conduct is not incorporated into the Yellow Book or required to be complied with, it is unclear why this reference is needed.

Paras. 7.73 and 7.84 require auditors to communicate certain matters involving internal control and noncompliance to those charged with governance and audited entity officials. It is not clear how that information should be communicated, or if there is a specific format that is needed.

### ***Performance Audits – Chapters 8 and 9***

Para. 9.65 indicates that auditors, after performing additional audit work, can “repost the original report if the additional audit work does not result in a change in findings or conclusions.” If the auditor had to perform additional procedures to obtain the sufficient appropriate audit evidence, shouldn’t the auditor have to re-date or dual date the report, and therefore it would not be appropriate to repost the original report?

### ***Other Comments***

Paras. 6.39-44 and 9.32-36 seem repetitive, containing overlapping requirements associated with fraud, waste, or abuse. The committee recommends considering a separate section for this topic to streamline the guidance.

Para. 6.39 – Auditors should communicate findings in writing to audited entity officials when they detect potential instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements or fraud, waste, or abuse that have an effect on the financial statements or other financial data significant to the audit objectives that are less than material but warrant the attention of those charged with governance.

Para. 6.43 – When auditors detect any potential instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements or fraud, waste, or abuse that do not warrant the attention of those charged with governance, the auditors’ determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment.

Para. 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.

#### ***Requirements: Reporting on Instances of Fraud, Waste, or Abuse***

Para. 9.32 – Auditors should report a matter as a finding when they conclude, based on sufficient, appropriate evidence—which may include a legal determination or



adjudication by a court—that instances of fraud, waste, or abuse have occurred that are material, either quantitatively or qualitatively, and are significant to the audit objectives.

Para. 9.33 – Auditors should communicate findings in writing to audited entity officials when the auditors detect potential instances of fraud, waste, or abuse that are not significant within the context of the audit objectives but warrant the attention of those charged with governance.

*Application Guidance: Reporting on Instances of Fraud, Waste, or Abuse*

Para. 9.34 – Whether a particular act is, in fact, fraud, waste, or abuse may have to await final determination by a court of law or other adjudicative body

Para. 9.35 – When auditors detect potential instances of fraud, waste, or abuse that do not warrant the attention of those charged with governance, the auditors’ determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment.

Para. 9.36 – When 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.

We appreciate your consideration of our comments. We are available to discuss any of these comments with you at your convenience.

Sincerely,

A handwritten signature in black ink, appearing to read 'Allison M. Henry', is enclosed in a thin black rectangular border.

Allison M. Henry, CPA, CGMA  
PICPA Staff Liaison, Not-for-Profit Committee