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Sent: Thursday, July 06, 2017 1:28 PM
To: Yellow Book Comments
Subject: Yellow Book Comments
Attachments: GAS Exposure Draft Comments.docx

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.

Comment: *Overall, the new format is better organized and more clear:*

- *Expanded definitions add clarity to the content; and the ethics section flows better when grouped with the independence section.*
- *Separating and expanding the Competence and Continuing Education sections as well as the Quality Control and Peer Review sections highlights the importance of these topics – the focus on reporting waste is a positive addition. Incorporating the Appendixes (supplemental guide) into the Standard improves overall readability and topic completeness.*
- *Separating the “must” and “should” requirements from the application guidance for each topic provides criteria clarity and efficiency, as noted in draft paragraph 1.24 ...the revised format designed to allow auditors to quickly identify requirements and application guidance related to those requirements.*

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.

Comment: *Combining ethics, independence, and professional judgment as one section reflects the interconnection of these topics and allows the reader to consider them in totality. The ethical principles set the stage for understanding auditor independence and professional judgement. The application guidance provides sufficiently clear requirements and prohibitions on safeguards and controls; and Figure 1 GAGAS Conceptual Framework provides a helpful visual decision making tool. More visuals should be added for other topics. However, requiring the auditor assess whether the audited entity possess the appropriate skillset to monitor and oversee the auditor’s nonaudit work in para. 3.67 can*

potentially create an appearance of a conflict of interest. Consideration should be added for using third party independent assessments to eliminate this threat. Examples of what are acceptable non-audit service situations would be helpful. Also, the examples of non-audit services seem exclusive to financial audits. It would be helpful for examples of other non-audit services for program audits, efficiency audits, etc.

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?

Comment: *Additional guidance is needed to guide users on the definition of basic, intermediate and advanced levels of proficiency, such as title, training and experience factors. It is not clear whether competence needs to only be considered or whether it should be included in the audit documentation that it was considered during staffing and the types of roles on the team.*

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.

Comment: *Since GAGAS is the standard for government auditing, the 4 hour GAGAS topic requirement for entry level staff and periodic GAGAS updates seems inadequate. An additional 4 hour requirement every 2 years with additional topics covering examples and case studies of GAGAS standards applications can continuously enhance and reinforce auditor proficiency.*

With the additional 4-hour training requirement for new GAGAS revisions, further guidance as to its applicability for audits in progress at the time of issuance is needed.

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?

Comment:

1. *Need to define who is required to obtain CPE: External and internal auditors, government and non-government personnel who perform audits or attestation engagements in accordance with GAGAS. The term “auditor” may also include analyst, evaluator, inspector, or a similar position that is involved in planning, directing, performing field work, or reporting.*
2. *Need to add subjects and topics that qualify for CPE, for example:*
 - *economic conditions, fiscal trends and pressures facing the government entity*
 - *appropriations, accounting, budgeting, financial management, procurement, contracting, and financial reporting in government*
 - *partnerships between governments, businesses, and citizens*
 - *government ethics and independence*
 - *government program management*
 - *government financial management issues, such as debt collection, credit management, cash management, grant management, etc.*
 - *legislative policies and procedures*
 - *relevant laws and regulations affecting government programs and the administrative aspects of those programs*
 - *compliance with laws and regulations*
 - *fraud, waste, abuse, or improper payments affecting government entities*
 - *evolving issues of homeland security and safety of citizens*
 - *measuring and reporting the results of government programs*
 - *assessing trends among the population of citizens receiving government services*
 - *risk assessment and risk management for the government entity*
 - *global trends affecting the government environment*
 - *opportunities and challenges presented to the government by advances in science and technology*
 - *information technology developments and applications that affect or could affect the government entity or program*

3. *Potentially add the following to section 4.40: Auditors may not carry over CPE hours earned in excess of the 80- and 24-hour requirements from one period to the next.*

Additionally, the relationship between GAGAS and other standards is listed as a GAGAS topic in the exposure draft, but guidance on the relationship between GAGAS and Other CPE requirements from GAO-05-568G GAGAS Guidance on CPEs is not. This is useful application guidance that can be included in the revision.

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?

Comment: *The changes to Chapter 5 (Quality Control and Peer Review) appear appropriate and reasonable.*

The additional guidance pertaining to review and supervision, appropriate consultation on contentious issues, and documenting terminated engagements will provide more comprehensive organizational quality controls and additional peer review criteria to provide the audit organization with necessary reasonable assurance.

Consider providing a specific time frame or retention period for documentation on quality control policies and procedures in section 5.04 (System of Quality Control) which currently states, “The audit organization should document compliance with its quality control policies and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organization’s compliance with its quality control policies and procedures.”

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?

Comment: *The Peer Review Requirements are very clear and concise. Specifically, Sections 5.70 through 5.74 (Peer Review Report Ratings) include a detailed and direct breakdown of peer review ratings, guidance on how to*

assess and apply these ratings to organizations, and good explanations of what constitutes “deficiencies.”

The modified standards to require review of terminated engagements and prior peer reports, requiring a written agreement to reduce potential misunderstandings, assessing prior deficiencies and effectiveness of corrective actions, requiring peer review expertise, requiring peer review compliance with GAGAS, and requiring organizational response to each deficiencies will result in a more complete peer review process.

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.

Comment: *Section 7.70 b (Licensing and Certification) references Section 7.69 (Licensing and Certification) for organizational requirements.*

Section 7.69 does not list organizational requirements but instead individual certification requirements for auditors engaged to conduct attestation requirements and financial statement reviews. Additional clarification would be helpful.

Section 7.72 (Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements) discusses when auditors should consult with their own legal counsel, investigative staff, other audit organizations or government entities.

Consider providing examples of circumstances that would warrant these types of consultations as well as examples of when consulting with these entities may not be necessary (i.e., situations that would not require external consultation).

The definition of “waste and abuse” provided in Sections 7.75 and 7.76 (Communicating Fraud; Significant Deficiencies or Material Weaknesses in Internal Control; Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements; or Instances of Waste and Abuse), respectively, are very helpful to understanding the guidelines in Sections 7.73 and 7.74 (Communicating Fraud; Significant Deficiencies or Material Weaknesses in Internal Control; Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements; or Instances of Waste and Abuse).

However, consider including specific examples of acts of noncompliance that warrant and do not warrant the attention of auditors charged with governance and audited entity officials in Sections 7.73 and 7.74.

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

Comment: *Yes, these sections provide a logical process for the auditor to understand and evaluate an entity’s internal controls. Although GAGAS stated that determining internal control significance is a matter of professional judgement, the section correctly emphasize that it affects planning and is a iterative process, and requires the auditor to obtain a good understanding of key controls and control objectives in designing evaluation approaches. The requirement to document an entity’s internal control design, implementation and operating effectiveness provides the auditor sufficient and appropriate evidence to recognize significant control deficiencies and its likelihood in relationship to the audit objective. Assessing information system controls in conjunction with internal controls clearly emphasizes its impact on internal controls.*

Section 8.45 (Obtaining an Understanding of Internal Control Considerations) does not list the five components of internal control at the entity-level as referenced in Section 8.39. Please include an explanation of these five components in Section 8.45 or provide a reference to the "Green Book" Standards for Internal Control in the Federal Government (GAO-14-704G).