

June 30, 2017

To: [YellowBookComments@gao.gov](mailto:YellowBookComments@gao.gov)

Comptroller General of the United States,  
Advisory Council on Government Auditing Standards,  
Government Accountability Office

The Washington Society of Certified Public Accountants (WSCPAs) Government Accounting and Auditing Committee (GAAC or Committee) appreciates the efforts of the Comptroller General's Advisory Council on Government Auditing Standards and the Government Accountability Office (GAO) project team in preparing this exposure draft. We welcome the opportunity to provide comments to enhance the usefulness of the "Yellow Book" to auditors of government entities and programs.

The views expressed in this documents are those of the GAAC. They do not necessarily represent the views of the WSCPAs as a whole.

We note that GAAC chair Mary Ann Hardy was a member of the GAO project team. Ms. Hardy did not participate in the preparation or GAAC deliberations on these comments.

Below we have provided responses to the questions posed in the exposure draft as well as some additional comments for your consideration.

## Responses to Questions for Commenters

**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 welcome the new format. It clearly distinguishes requirements from application guidance and places supplemental guidance—found in appendix 1 to the 2011 edition—with the requirements it applies to. The new format is also consistent with the formats used in International Standards on Auditing and the codifications of auditing and attestation standards resulting from the AICPA's clarity project.

**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.**

Requirements and application guidance in Chapter 3 largely conforms provisions that already exist in the 2011 edition to the new requirements/application guidance format. As stated above, we welcome the revised format. We also welcome the substantive changes, especially identification of services related to preparing accounting records and financial statements, as described in paragraph 3.89, as significant threats to independence. Although the requirements related to such services didn’t change from the 2011 Yellow Book, paragraph 3.89 emphasizes the threat to independence, and the need to apply safeguards, more clearly.

We believe that this area requires emphasis to ensure that practitioners fully understand the significant risk to independence when assisting clients in the preparation of financial statements. As such, we recommend that paragraph 3.90 be elevated from application guidance to a requirement. The paragraph clearly states that an auditor’s acceptance of responsibility for preparation and fair presentation of financial statements that the auditor will subsequently audit would impair the auditor’s independence. Because application guidance is advisory in nature, we believe such an unambiguous statement is better expressed as a requirement.

**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?**

No. Paragraph 4.03 adds a requirement that individual auditors possess the competence needed for their assigned roles. If this addition is necessary, the role definitions in paragraphs 4.09-4.10 are helpful.

However, we do not believe this new requirement is necessary. Paragraph 4.02 contains the longstanding GAGAS requirement that audit team members collectively possess the competence needed to address the engagement objectives and perform their work in

accordance with GAGAS. As such, it allows team members new to their roles – but not yet competent (proficient) when assigned – to receive on-the-job training as they perform the audit.

**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.**

Paragraph 4.15 appropriately requires auditors managing or supervising GAGAS engagements to complete GAGAS-related CPE before they complete the first GAGAS engagements. Paragraph 4.23 lists each chapter in the Yellow Book and, as such, provides a useful list of high-level topics.

**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 agree with GAO’s intent to incorporate CPE guidance into chapter 4 and to retire the separate guidance document. However, we are concerned that the exposure draft no longer ties the 24-hour requirement to subjects and topics directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates. Several of the examples described in paragraph 4.24 clearly apply to the government environment; these include:

- GAGAS topics listed in paragraph 4.23 (4.24a).
- Standards for Internal Control in the Federal Government (4.24e).
- Regulations, statutory requirements, criteria, or guidance relevant to the specific or unique environment in which the audited entity operates (4.24i).

However, other examples are not as clear; these include:

- U.S. generally accepted accounting principles, or the applicable financial reporting framework being used (4.24b).

- Specialized audit methodologies or analytical techniques (4.24k).
- General ethics and independence (4.24k).

These are useful topics; however, as stated they aren't applied directly to the government environment.

The government environment differs from environments applicable to private sector entities – both issuers regulated by the Securities and Exchange Commission and nonissuers. Significant differences also exist between Federal, state, and local governments; and among private entities that must be audited in accordance with GAGAS because they receive government funding. We believe that GAGAS should retain the current requirement that auditors receive 24 hours of CPE that relates directly to the government environment, GAGAS, or application of other standards such as generally accepted accounting principles, laws, or regulations to government auditing.

**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?**

Yes. The Committee welcomes the additions to harmonize quality control sections with other standards. We also welcome the specific requirements and application guidance on peer review in paragraphs 5.63 through 5.113. The federal and governmental auditors on our Committee believe that these largely mirror guidance already found in peer review guidance issued by the Council of the Inspectors General on Integrity and Efficiency. As such, they believed that the changes are consistent with current practice and should be familiar to reviewers and reviewed organizations alike.

The Committee members who practice in public accounting believe that this section should align more with the AICPA Code of Conduct, and believe that there is still a gap in consistency and harmonization with those standards.

**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?**

Yes. Most reviewed organizations in the United States are likely affiliated with recognized organizations. Paragraphs 4.80 through 5.113 establish equivalent requirements and application guidance for other audit organizations.

**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.**

We support the expanded GAGAS requirements and application guidance for reviews of financial statements; they ensure consistency across engagement types in the following areas:

- Licensing and certification, by requiring auditors in the United States to either be affiliated with a government audit organization or be employed by a CPA firm. This is not really a new requirement, as accountancy laws in most states define reviews of financial statements as attest services and state that only personnel working under the direction of licensed CPAs in licensed CPA firms – or government audit organizations – can perform them.
- Addressing fraud, significant deficiencies or material weaknesses in internal control, noncompliance with provisions of laws, regulations, contracts, and grant agreements.
- Reporting compliance with GAGAS and distributing reports.

**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?**

Yes; according to a GAAC member who currently conducts performance audits in the Federal government, his organization already applies the 2014 *Standards for Internal Control in the Federal Government*, which are based on *Internal Control – Integrated Framework*. His organization previously applied the 1999 Standards, which were based on the 1992 edition of *Internal Control – Integrated Framework*.

## **Additional Comments**

We have strong concerns about the inclusion of standards for financial audits related to expanded procedures and reporting of findings of waste if auditors become aware of such items that could be material as noted at ¶6.16, ¶6.35, and ¶6.39. Similar changes are being proposed for attestation engagements, reviews, and performance audits. The

concept of waste, as defined in ¶6.17 is very subjective. While it may have a place in a performance audit, when the purpose of the audit is to assess whether the entity is achieving economy, efficiency or effectiveness in the employment of available resources, our Committee members do not believe that it is appropriate to include this in a financial audit or review. Even within a performance audit, the parameters of efficiency and effectiveness are clearly outlined in the engagement scope, which is the criteria used by the auditor in conducting the audit.

Without further definition or criteria, it will be very difficult, if not impossible, for an auditor to make a determination of “mismanagement”, “careless use of resources” or a “taxpayer not receiving reasonable value for money”. Using these concepts, which were lifted from ¶6.17, any taxpayer or stakeholder (or regulator) who disagrees with the program or expenditure in question could make a case that it was ‘careless’ or that they ‘did not receive value for their money’. This concept is too undefined and too subjective to be included as a part of a financial audit, attestation engagement or review. We also believe that it should not be required for performance audits, as the scope for that type of engagement will address the concept and criteria if appropriate.

We are concerned that auditors will be held accountable to a very subjective standard that contains many vague, imprecise and ill-defined concepts. This is an unfair burden to place on auditors for a set of definitions and concepts that can be interpreted very differently by stakeholders and regulators. We fear this would open the door for unfounded and inappropriate criticism and sanctions by federal and state regulators.

The concept of waste should be removed entirely from Government Auditing Standards.

Thank you for the opportunity to provide comment on the Government Auditing Standards 2017 Exposure Draft.

Sincerely,

On behalf of the WSCPA Government Accounting and Auditing Committee  
Laurie Tish, CPA  
Gordon Craig, CPA