



630.566.8400 // www.sikich.com

1415 W. Diehl Road, Suite 400
Naperville, Illinois 60563

Certified Public Accountants & Advisors
Members of American Institute of Certified Public Accountants

July 6, 2017

Mr. Gene L. Dorado
U.S. Government Accountability Office

Mr. Dorado:

Sikich LLP would like to thank the Government Accountability Office (the Office or GAO) for the opportunity to respond to the Office's Exposure Draft containing proposed updates to Generally Accepted Government Auditing Standards (GAGAS). We believe that the due process by which the Office's constituents may respond to such drafts is essential for facilitating a high quality final document.

Following are our responses to questions posed by the exposure draft.

Question #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.

The revised format has a variety of benefits that have improved the organization and readability of the standards. For starters, the formatting of the standards has been expanded to encompass the entire page. This simple change, reduces the number of pages and enhances the readability of the standards.

Additionally, the separate segregation of the application guidance by using boxes with further explanations contained therein, significantly improves the organization of the standards and facilitates the user to research important requirements when needed.

Question# 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.

Paragraph 67 of the 2017 Yellow Book Exposure Draft added language that requires the audited entity’s designated individual to understand the services well enough to be capable of detecting a material error, omission or misstatement but not required to possess the expertise to perform or re-perform the services. We agree this additional statement better explains the requirement.

Paragraph 3.89 provides examples of services related to preparing accounting records where threats of to independence must be documented and the safeguards applied before the auditor would be permitted to perform these services. An example found at paragraph 3.52 (e) in the 2011 Yellow Book was not included in the 2017 Yellow Book Exposure draft relating to the auditor proposing standard, adjusting or correcting journal entries or other changes affecting the financial statements where management must understand the nature of the proposed entries. We would like to see an explanation of why this example was not included in the 2017 Yellow Book?

Paragraph 3.97 provides a list of prohibited services relating to Information Technology. We noted that operating an audited entity’s network, 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 was added to the list of prohibited services. We agree this service should be prohibited since this would be considered management participation, however, we would like to see how you define “operating” with respect to an audited entity’s network.

In conclusion, we believe the revisions related to nonaudit services sufficiently and clearly explain what is required and prohibited under GAGAS, except as noted above.

Question #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 descriptions generally clarify the competence required and level of proficiency expected for each of the roles. In other words, it provides a basic outline for each role. We recommend you expand these descriptions by providing examples of some of the typical work situations for each of the three levels. In addition, we recommend providing examples of what the typical skill, knowledge and abilities of someone would be for each role.

Question #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.

The topics noted in paragraph 4.23 to be included in the 4 hour GAGAS CPE requirement include the significant areas covered by *Government Auditing Standards*. We have no recommendations for additional topics. The addition of the 4-hour GAGAS CPE requirement will enhance auditor proficiency and we have no further recommendations for other requirements.

Question #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?

Adding the CPE requirements and guidance into the body of the standards will make this information much easier to access.

It was also noted that the paragraphs 4.26 through 4.50 do not contain the examples of acceptable topics from paragraph 19 in GAO-05-568G. We would like to see additional examples from paragraph 19 in GAO-05-568G included in paragraph 4.25.

Question #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?

Quality Control and Assurance

Chapter 5 of the 2017 Yellow Book Revision contained some major revisions and many new sections were added when compared to the 2011 Yellow Book Revision. The 2017 Yellow Book Revision contains “Application Guidance” for each Quality Control Requirement including “Quality Control and Assurance,” “System of Quality Control,” “Leadership Responsibilities for Quality within the Audit Organization” and “Independence, Legal and Ethical Requirements”. The addition of Paragraph 5.09 in the 2017 Yellow Book Revision notes that audit organizations should obtain written affirmation of compliance with its policies and procedures on independence from audit personnel at least annually. We agree these additions and revisions provide more clear guidance with respect to Quality Control and Assurance.

Paragraph 5.24 notes the policies and procedures for when a consultation is needed for difficult and contentious issues. The Application Guidance for this section provides reasonable guidance on engagement supervision, review of the audit work and the methods of effective consultation.

Monitoring of Quality

The addition of Paragraph 5.44 in the 2017 Yellow Book Revision notes that an audit organization should analyze the results of its monitoring process at least annually, identify issues needing improvement and take corrective action where necessary. We believe this recommendation is essential due to the fact a peer review only occurs every third year but it is important for audit organizations to maintain their monitoring every year. The Application Guidance for this section provides clear examples of the evaluation of the system of quality control and also the need for an assessment of the audit organization's guidance materials, effectiveness of staff training, decisions related to acceptance and continuance of audit engagements, and whether the audit organization's personnel understand the system of quality control.

External Peer Review

An important new paragraph is found in paragraph 5.64 where it states audit organizations must comply with the requirements of their recognized organizations including the AICPA where applicable and if not affiliated with one of the recognized organizations that they must at the very least comply with GAGAS minimum peer review requirements.

The addition of Paragraph 5.72 in the 2017 Yellow Book Revisions provides guidance on how the peer review team evaluates the results of the peer review in determining the ratings of Pass, Pass with Deficiencies or Fail. We would like to see specific guidance on where the communication of the peer review results can be posted publicly.

New items were added in paragraph 5.87 including the need for the peer review team to appoint someone to ensure the team's independence, supervise the peer review team members and adequately staff the team in order to complete the review in the agreed upon time. We believe these additions are appropriate as it is important for the peer review team to have partial responsibility to ensure the review is completed timely.

Paragraph 5.90 in the Application Guidance for the Peer Review Team was added to note the need to have peer review team members with specialized skills and experience such as information technology specialists or team members who have experience auditing entities similar to those audited by the audit organization under review. We believe this new guidance is important since it is very difficult to perform a peer review on a firm that audits higher education or healthcare if no members of the peer review team have experience auditing that type of organization.

Paragraph 5.94 in the Application Guidance for Assessment of Peer Review Risk was added with the 2017 Yellow Book Revision that provides good examples of peer review risk.

Paragraphs 5.98-5.102, *Peer Review Report Ratings*, appear to duplicate the requirements noted

The addition of Paragraphs 5.106 and 5.107 in the 2017 Yellow Book require the audit organizations not affiliated with recognized organizations to respond whenever they receive either a Pass with Deficiencies or Fail. They must reply with the corrective actions already taken, dates for planned corrective actions or why the audit organization does not believe the corrective action is necessary. We believe these paragraphs clearly state what audit organizations must do after receiving their Peer Review Reports.

Question #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?

The peer review requirements for each category of audit organization are generally clear. We offer the following recommendations to improve clarity:

- Paragraph 5.72 - Provide specific examples of findings, deficiencies and significant deficiencies.
- Paragraph 5.79 - Provide an explanation of the peer review process which may include the peer review rating system to the Public.
- Paragraph 5.79 (a) - Expand on what could be included in the explanation of the peer review process. Include the most important aspects of the peer review process and the role it plays in the assurance of quality audits and how that serves the public interest.
- Paragraph 5.83 - Provide the exceptions to the one year period for reviews.
- Paragraph 5.100 - Provide specific examples of findings, deficiencies and significant deficiencies.
- Paragraph 5.113 (a) - Expand on what could be included in the explanation of the peer review process. Include the most important aspects of the peer review process and the role it plays in the assurance of quality audits and how that serves the public interest.

Question #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 clearly provide the licensing and certification requirements necessary to conduct a review engagement in accordance with GAGAS. Further, as would be expected, the licensing and certification requirements are consistent with those for conducting financial audits, examinations and agreed upon procedures.

U.S. Government Accountability Office
July 6, 2017

Page 6

The application guidance is clear and consistent with those for audits and other types of attestation engagements when applicable. Although much of the guidance is repetitive of the application guidance in other sections, the information is beneficial for auditors performing review engagements and specifically addresses review standards for reporting.

Question #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?

The description of the internal control standards is clearly separated into four different requirements with clarification on each. These sections clearly describe the ways auditors may assess internal control on performance audits. No further recommendations are made to improve these paragraphs.

Sincerely,

Sikich LLP

Sikich LLP