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Via Email to YellowBookComments@gao.gov

Re: Proposed Changes to *Government Auditing Standards*, 2017 Exposure Draft

Dear Mr. Dodaro:

Grant Thornton LLP appreciates the opportunity to comment on the 2017 Exposure Draft of *Government Auditing Standards* (GAGAS) issued for public comment by the United States Government Accountability Office (GAO). Overall, we are supportive of the proposed changes to GAGAS and agree that the revised format and updated requirements are useful and will help auditors of entities subject to GAGAS carry out high-quality work that reflects competence, integrity, objectivity, and independence. Accordingly, we support the issuance of the proposed revisions to GAGAS, however we note certain aspects of the proposal that we believe could be clarified or may result in unintended consequences. Accordingly, we respectfully submit our comments and recommendations thereon. We have provided comments on the individual chapters that encompass our responses to the GAO's specific questions. We have also included comments regarding certain of the major changes summarized in the Exposure Draft.

With respect to the reorganization and revised format, we believe this presentation provides for clearer organization and improved readability of the requirements and application guidance related to those requirements. Additionally, we believe paragraph 1.24 is helpful in describing the revised format and explains which text constitutes requirements and which is provided to aid in the understanding and implementation of the requirements. The use of borders to emphasize the GAGAS requirements is helpful. Overall, we believe the reorganization and realignment of the individual chapters and requirements as well as the removal of the supplemental guidance in the appendices and incorporating such information into the individual chapters will improve the application of the GAGAS requirements.

However, we are concerned with certain of the proposed changes related to (1) the GAGAS CPE framework and the addition of the GAGAS Qualification requirement; and (2) the auditor's responsibilities to respond to and report (including potentially outside the organization) the identification of waste or abuse.

We understand the GAO believes the changes to the CPE framework will positively enhance audit quality and the competence of the engagement teams performing GAGAS engagements. While we certainly support the overarching goal of audit quality, we are concerned that certain of

the proposed changes may not impact quality in a meaningful way and, as proposed, may introduce additional complexity when determining compliance with the proposed rules.

With respect to the proposed changes to the auditor’s responsibility regarding waste and abuse, we are concerned with the context of the proposed changes that do not clearly acknowledge the subjectivity of making a determination, even preliminarily, as to what spending may be deemed wasteful or abusive. In addition, the guidance seems to infer that the auditor’s determination of the impact of potential waste or abuse does not include consideration of management or those charged with governance making an initial assessment of the matters. Finally, we are concerned with the reporting requirements that may not appropriately acknowledge the need to consider all professional responsibilities that may preclude communications of such matters, particularly where the requirements may dictate communication outside the organization.

We have included more specific comments on the above matters below along with additional comments and recommendations in our discussion of the specific chapters.

Comments Regarding Changes Identified by Specific Chapter

Change to Guidance for *Government Auditing Standards*

- *The guidance provided in *Government Auditing Standards: Guidance on GAGAS Requirements for Continuing Professional Education (GAO-05-568G)* will be superseded by the revised GAGAS standards when they become effective.*

The Guidance on GAGAS Requirements for Continuing Professional Education (GAO-05-568G) includes a requirement that, “for individual study programs where successful completion is measured by a summary examination, participants must complete the examination with a minimum passing score of 70 percent before receiving CPE credit for the course.” This minimum passing score percentage is not noted in the proposed revised GAGAS standards. As the Guidance on GAGAS Requirements for Continuing Professional Education (GAO-05-0568G) will be superseded, we recommend that the revised GAGAS standards include the required minimum passing score percentage.

Chapter 1 – Government Auditing: Foundation and Principles for the Use and Application of Generally Accepted Government Auditing Standards

- *Definitions of common terms used in GAGAS are expanded. Definitions for terms such as *engaging party, audited entity, responsible party, and specialist* are added. (para. 1.23)*

We note that the definitions of additional terms are helpful. We do observe that further clarity would be helpful with respect to the definition of auditor. The description in Chapter 1 indicates this could include an IT auditor, however, Chapter 4 when discussing specialists also notes that a specialist skill could include information technology. It would be helpful to further clarify that a person with specific IT skills may fit within either category depending on how they are used in the audit. For example, an

IT auditor who is involved in the planning and will be used to help identify the design and test controls over relevant audit objectives may meet the definition of “auditor.” On the other hand an IT specialist who is performing only access testing related to IT general controls may be considered a “specialist.”

We suggest the application guidance address whether the audit team’s responsibilities differ depending on whether the specialist is an employee of the audit firm or is an external specialist engaged by the auditor.

Finally, we note that many firms also maintain national office personnel who may be called upon to consult on engagement matters or provide other quality control assistance and the assistance of such personnel may or may not be relevant to specific GAGAS matters. We do not believe such personnel should be included within the definition of the audit team.

Chapter 3 – Ethics, Independence and Professional Judgement

We believe the additional requirements and guidance provided concerning the provision of nonaudit services to audited entities as described above are appropriate. The revisions appear to align the GAGAS independence requirements to those of the AICPA, specifically the clarification with respect to management’s responsibilities and the general requirements for performing nonattest services described in AICPA interpretation 1.295, *Nonattest Services*. We believe these revisions sufficiently and clearly explain the requirements, including application of the conceptual framework and prohibitions under GAGAS.

- *The independence requirements of the auditor when the engaging party differs from the responsible party are further explained and examples of when this could occur are provided. (para. 3.24)*

We believe the application guidance provided with respect to the independence requirements of the auditor when the engaging party differs from the responsible party is appropriate. This addition aligns with the applicable portion of AICPA Interpretation 1.297, *Independence Standards for Engagements Performed in Accordance with Statements on Standards for Attestation Engagements*.

- *Standard is expanded to require that, as part of applying the conceptual framework, auditors reevaluate threats to independence whenever the audit organization becomes aware of new information or changes in facts and circumstances. (para. 3.29)*

We believe this additional requirement is appropriate. Further, we believe it would be beneficial to incorporate this reevaluation process into the flowchart illustrating the

GAGAS Conceptual Framework provided in Figure 1 of Chapter 3. We recommend updating the flowchart accordingly.

Finally with respect to the flowchart in Figure 1 of Chapter 3, we suggest that, as was included in the 2011 Yellow Book, the flowchart figure include references related to prohibited nonaudit services. We believe that auditors find these references helpful.

- *Guidance related to professional services in government is further explained and examples of when this could occur are provided. (para. 3.80)*

We believe the additional application guidance provided in paragraph 3.80 with respect to certain arrangements that may exist for professional service engagements in government is helpful. However, we ask the GAO reconsider the accuracy of the last sentence of paragraph 3.80 which states, “There are no GAGAS requirements related to these three-party or two-party professional services arrangements.” We believe the following may be clearer: “There are no GAGAS requirements with respect to the entity(ies) which is (are) not a responsible party(ies) of the three-party or two-party professional services arrangements.”

- *Standard is expanded to state that any services performed by auditors related to preparing accounting records and financial statements, other than those defined as impairments to independence in paragraph 3.88, create significant threats to auditors’ independence, and auditors should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level or decline to perform the service. (para. 3.89)*

We believe the expanded standard is appropriate as it highlights the magnitude of these services with respect to creating significant threats to independence.

Chapter 4 – Competence and Continuing Professional Education

As noted in our opening comments, we believe the changes in this area are significant and could result in unintended consequences. In that regard we have noted certain specific comments and recommendations for changes we believe will enhance the effectiveness of these changes and address complexities or ambiguities we note in the Exposure Draft. Our recommendations identify specific areas of the proposed requirements and guidance. Depending on the GAO’s ultimate conclusions with regard to certain of these matters, further recommendations to enhance or delete requirements or guidance may be identified. For example, we recommend below that the GAO reconsider the proposed 4-hour requirement specific to GAGAS changes and instead fold those requirements into the existing 24-hour requirement; if acted on, this might negate the need for further clarification on the roles and responsibilities section we have suggested.

- *Standard is revised to require that management assign auditors to conduct an engagement who possess the competence needed for their assigned roles at the time of their assignment. (para. 4.03)*

The definition of “competence” in paragraph 4.06 includes “possessing specific knowledge about GAGAS.” When considering this definition in the context of paragraph 4.03, it would seem that the proposed standard has been revised to require that management assign auditors to conduct an engagement who possess the specific knowledge about GAGAS needed for their assigned roles at the time of their assignment. As the engagement team may include entry level auditors who may not have had the opportunity to acquire specific knowledge about GAGAS needed for their assigned roles at the time of the assignment, we recommend removing the last sentence in paragraph 4.06.

- *The concept of competence is discussed further in application guidance, including the following:*
 - *The levels of GAGAS proficiency expected for different roles on an engagement. (paras. 4.09 through 4.10)*
 - *The competence of specialists. (paras. 4.12 through 4.14)*

It is our understanding that the purpose of paragraph 4.10 is to define the various roles on the engagement, to connect these roles to the work performed on the engagement, and ultimately to link these roles to CPE requirements. The definitions in paragraph 4.10 include, for each role, a description of the “work situations” common to the role and a statement about the needed “level of proficiency.”

We believe that the first sentence in the definition of the roles in paragraph 4.10, which discusses the work performed by each role, is helpful in defining these roles. However, it is unclear how the “work situations” and “level of proficiency” concepts assist in these definitions. Further, we question if the inclusion of the “work situations” and “level of proficiency” concepts may detract in the compliance and understanding of the definitions of the various roles. We recommend either removing the “work situations” and “level of proficiency” concepts or providing additional context and possibly examples to assist the user in making the appropriate connections to other relevant portions of the proposed standard.

Additionally, we noted the word “plan” is used to define the “entry level” role. Given the definition of “planning” in paragraph 4.11, we believe that persons in entry level roles would not perform these duties. As such, we recommend removing the words “plan or” from the definition of the entry level role to help avoid potential confusion.

Further, related to the definition of “planning” in paragraph 4.11, we believe the use of the word “solely” is overly prescriptive and may draw in less experienced professionals to a CPE requirement for a single activity that may be very minor in scope of the planning and risk assessment process. As such, we recommend removing the word “solely” from the definition of “planning.”

To further clarify the planning role, we recommend changing the word “determining” to “approving” to more clearly focus on the outcome of the planning process, as opposed to the execution of the planning process. We believe this change might also address group audit circumstances where a number of different audit teams may be involved in performing the engagement procedures but may not be charged with overall planning responsibilities.

We believe that paragraphs 4.10, 4.11 and elsewhere, as appropriate, should define and discuss the role of the quality control reviewer. We recommend that edits are made to paragraphs 4.10, 4.11 and elsewhere, as appropriate, to define and discuss the role of the quality control reviewer.

- *The requirements for continuing professional education (CPE) are revised to promote greater proficiency in GAGAS. This includes the following:*
 - *Introducing a new 4-hour requirement in GAGAS topics, to be required each time a new version of GAGAS is issued. (paras. 4.15 through 4.17)*
 - *Providing application guidance concerning the topics required by the 80-hour GAGAS CPE requirements. (paras. 4.21 through 4.25)*
 - *Detailing exemptions that may be granted to auditors in certain circumstances. (paras. 4.26 through 4.30)*

In practice, engagement teams are constructed such that the team has the collective level of competence, as defined in paragraph 4.06, to perform a GAGAS engagement. While auditors at every level must possess the competence needed for their assigned roles, the burden of audit quality falls primarily on the signing engagement partner. While we acknowledge that the auditors assigned to supervisory roles, depending on the nature of their involvement, also are key contributors to audit quality, in that regard however, we are skeptical that including the requirement for additional CPE specific to GAGAS changes will result in a meaningful increase in audit quality and could result in unintended consequences with respect to identifying the auditors required to meet those requirements. For example, the larger and more complex the audit engagement, the more supervisory personnel will be assigned and there may be many auditors in a supervisory role as outlined in paragraph 4.10(b). Over the duration of a large audit engagement these supervisory personnel may be involved from beginning to end while others may be assigned for smaller portions of the audit, which may result in difficulty ensuring compliance with the proposed 4-hour requirement.

So while we agree auditors in supervisory positions should be aware of GAGAS changes and implement effectively those changes, we encourage the GAO to consider how enhanced CPE requirements could be more effectively implemented as part of the 24 hour requirement. If the GAO continues to believe that a separate 4 hour requirement is

necessary to meet the goals of improving audit quality, we believe that such requirement should be limited to the partner or equivalent.

Further related to paragraph 4.15, we believe that, if the intent of the GAGAS Qualification is to help ensure that auditors have the knowledge, skills, and abilities necessary to conduct a GAGAS engagement, satisfying the GAGAS Qualification requirement after completing the work seems inconsistent. Accordingly, if the intent of the additional CPE related to GAGAS revisions is to help ensure that auditors have a sufficient understanding of those revisions, this training should be required to be completed before starting the work on an engagement when the revisions will be effective for that engagement. While we recognize the concepts of when the engagement actually starts can raise questions, we believe this can be addressed through application guidance. Also, changes to GAGAS usually have a delayed effective date allowing auditors adequate time to complete training before starting work on an engagement without undue hardship.

Paragraph 4.15 also states that, “Auditors who plan, direct, perform engagement procedures for, or report on an engagement conducted in accordance with GAGAS should complete the GAGAS Qualification requirement as part of developing and maintaining their professional competence.” As such, it would seem that auditors are required to complete the GAGAS Qualification requirements as part of developing their professional competence however, given that paragraph 4.03 requires that management assign auditors to conduct an engagement who already possess the competence needed for their assigned roles at the time of their assignment, we recommend removing the words “developing and” from paragraph 4.15.

Finally with respect to paragraph 4.15, given that entry-level staff frequently change roles and industries in their first few years, we believe that the requirement that “Entry-level staff should obtain GAGAS Qualification by the end of their first full 2-year CPE period” should be removed. We do not believe that this requirement will significantly impact audit quality given that compliance is not required for at least 2 years from the time they work on GAGAS audits. We suggest that the overall competence that must be present is ordinarily sufficient for this role.

As noted by paragraph 4.22, paragraph 4.23 provides examples of CPE subjects that may qualify for the categories. Similarly, we believe that paragraph 4.16 should be revised to make it clear that the examples listed in paragraph 4.23 are for consideration and as such CPE is not mandated to cover only or all of these topics. We recommend revising paragraph 4.16 to read, “For CPE to fulfill the GAGAS Qualification requirement, the CPE provider should consider including the relevant GAGAS topics listed in paragraph 4.23 and include in the course description wording that indicates that its purpose is to fulfill the GAGAS Qualification CPE requirement.”

We suggest that paragraph 4.18 be revised to state, “Auditors responsible for planning, directing, and reporting should maintain their professional competence and, as required

in paragraph 4.15, their GAGAS Qualification by completing at least 80 hours of CPE in every 2-year period as follows:” We believe these conforming edits help to clearly delineate who is required to attain GAGAS Qualification.

Other observations related to CPE requirements

We have always found it counterintuitive that the CPE exemption for auditors who charge less than 20 percent of their time, annually, to GAGAS engagements be applied to the 56-hour CPE requirement. It appears this provision has been retained in paragraph 4.26. Since the goal was to reduce the burden for auditors who spend less than 20% of their time on GAGAS engagements, we believe this exemption should be applied to the 24-hour CPE category given the more restrictive nature of approved topics in that category instead of the 56-hour category which is very broad and already relatively simple for most auditors to achieve.

With respect to paragraph 4.18, we believe the 24-hour and 56-hour definitions could be interpreted as being very similar, if not the same. The former definition of the 56-hour requirement was that these hours “enhance the auditor’s professional proficiency to perform audits.” Given the revised definition that these hours relate to “subject matter or topics that directly enhance auditor’s professional expertise to conduct GAGAS engagements” we believe it is unclear if the intent is that the entire 80 hours of CPE be on topics that relate to GAGAS engagements being performed by the auditor. We suggest some additional clarity on the distinction between the 24-hour CPE requirement and the additional 56-hour CPE requirement.

Further as it relates to paragraph 4.18, public accounting firms and their employees have found the existing 56 and 24-hour CPE requirements in GAGAS to be complex and challenging to track. Because the CPE requirements are engagement and employee specific, it can be difficult to track compliance by centralized CPE systems without significant input and interpretation by each employee who works on GAGAS engagements. Further, the exemptions and exceptions for auditors who spend less than 20 percent of their time annually on GAGAS engagements, are brand new to GAGAS audits or their firm, or in roles where they do not plan, direct, or report can be difficult to understand. We suggest GAO consider developing a flowchart or other visual decision tree to assist auditors in understanding and correctly applying the CPE rules. We believe this will be even more important if the proposed rules in paragraph 4.15 become part of GAGAS as it has its own set of unique tracking and interpretation challenges.

With respect to paragraph 4.21, it is noted that the auditor may satisfy the 24-hour or the 56-hour CPE requirement with CPE subjects that may be relevant to “probable future engagements.” In the assessment of whether or not an auditor met the GAGAS CPE requirements at the end of the applicable two-year reporting period, we recommend adding examples of appropriate considerations with respect to the definition of probable future engagements.

Chapter 5 – Quality Control and Peer Review

As a general quality control-related comment, we note that both the International Auditing and Assurance Standards Board (IAASB) and the PCAOB have ongoing projects to enhance the

current quality control standards. While the AICPA's Auditing Standards Board is not proposing similar changes at this time, we acknowledge that the issues being discussed (for example the quality management approach being discussed by the IAASB) are important topics which may identify improvements to the quality control process. We recommend that the GAO monitor these projects and consider the need for possible changes to GAGAS standards.

- *Requirements are added and guidance is provided for engagement performance, documentation, and reporting, including requirements for policies and procedures pertaining to the review and supervision of engagement work performed by the engagement team. (paras. 5.20 through 5.41)*

We note that the application guidance for this section addresses the requirement to provide appropriate supervision however this is not noted in the requirements section. We recommend revising paragraph 5.21 to read, "The audit organization should establish policies and procedures pertaining to the review and supervision of audit work performed and related audit documentation that require experienced engagement team members to review the work of less experienced engagement team members."

We also note the following suggested clarifying comments:

- With respect to paragraph 5.30(e), we suggest adding "auditor's employed or engaged" before "specialists" to clarify that this is not intended to cover circumstances where management has employed or engaged a specialist.
- With respect to paragraph 5.34(d), we suggest deleting "and without need for revision" as we believe this is redundant given the notion of "appropriate" noted earlier in the sentence.

We support the changes related to peer review requirements (paragraphs 5.63 through 5.113) with the exception of the item noted below. We believe it is important to have a common systemic method to judge the quality of the audit work performed on GAGAS engagements. This should apply to any firm engaged to perform work under GAGAS. The standards for audit organizations affiliated with a recognized organization (paragraph 5.64) and the standard for organizations not affiliated with recognized organizations (paragraph 5.65) are constructed in such a way that the consistency of the outcomes of peer reviews should be enhanced.

- *Standard is modified for audit organizations not affiliated with recognized organizations (para. 5.65) as follows: For subsequent peer reviews, the audit organization should obtain a peer review report dated not later than 3 years and 6 months from the year-end of the previous peer review. (para. 5.82)*

We believe that the requirement for peer review intervals in paragraph 5.82 for organizations that are not affiliated with recognized organizations should be reconsidered, specifically, the requirement for the initial peer review. We believe that an initial peer review no later than 3 years from the date an organization begins its first GAGAS engagement is too long. Given the uniqueness of GAGAS requirements and

the public interest in timely ensuring the compliance with those requirements, we believe the requirement of this paragraph should be revised to require a peer review on the initial GAGAS engagement. This will limit instances where multiple deficient audits may be performed prior to a peer review being able to identify an organization that lacks the skills, knowledge, or experience to discharge a GAGAS audit.

Chapter 6 – Standards for Financial Audits

As noted in our opening comments, we are concerned with certain aspects of the proposed changes with respect to the auditor's responsibilities to evaluate, respond, and potentially report waste and abuse. Our specific comments are included below.

- *Standard is expanded to require that auditors perform audit procedures to ascertain the potential effect on the audit objectives if they become aware of waste that could be quantitatively or qualitatively significant to the audit objectives. (para. 6.16)*

We believe it is important that, as is noted for addressing abuse, all requirements related to waste include a note that the determination of waste is subjective and as such auditors are not required to perform procedures to detect waste. Further, even if waste or abuse is identified, given the subjective nature of these concepts, we believe it will be difficult for auditors to determine the potential effects on the audit objectives and report, as is required by these proposed standards, without substantial involvement of management and those charged with governance. While we agree with the goals of the Federal government to identify waste and abuse, given the subjective nature of these concepts we recommend that requirements on auditors in these areas be clarified to acknowledge the subjectivity of such determinations and the fact that identification of waste and abuse is not specific to the objectives of an audit under GAGAS.

We believe it would also be important to note in the application guidance to the requirements in paragraph 6.16 that management and those charged with governance have the primary responsibility for assessing the impact on the financial statements and operations of the entity. We suggest the guidance reflect those responsibilities and that the auditor should address the potential waste or abuse matters first through evaluating management's response and actions (planned or taken). As written, the guidance might suggest that the auditor has the responsibility to make such determinations. The guidance could also be expanded to provide auditor considerations when management has not properly evaluated or responded to the identification of such matters. For example, in that circumstance would communications, assuming communications are permissible, to a relevant external party be required.

Chapter 8 – Fieldwork Standards for Performance Audits

- *Guidance is revised to further explain that management assertions are not required when conducting a performance audit in accordance with GAGAS. (para. 8.14)*

We agree with the clarification with respect to the fact that a performance audit can be performed and reported on without obtaining an assertion from management. However, there may be circumstances where an auditor may believe that management’s assertions are an important aspect to the planning, scope, and reporting phases of the audit with respect to a specific subject matter (for example when the audit includes an examination of internal controls or compliance with certain contractual or regulatory provisions). Accordingly, we recommend that application guidance be included that indicates that management assertions may be requested when conducting a performance audit in accordance with GAGAS, including relevant examples of such circumstances.

Chapter 9 – Reporting standards for performance audits

- *Standard is expanded to require that auditors report findings of waste when they conclude based on sufficient, appropriate evidence that instances of waste have occurred that are material, either quantitatively or qualitatively, and are significant to the audit objectives. (para. 9.32)*

As noted previously, we are concerned with the expansion of the auditor’s responsibility for concluding on and reporting of “waste.”

With respect to paragraph 9.25 related to internal control, we suggest the first sentence be clarified as it is not clear whether: (a) the auditor is not evaluating all of the relevant components and principles of internal control significant to the audit objectives; or, (b) management’s design of controls does not include all of the relevant components and principles. We believe this is an important difference that could affect the auditor’s responsibilities in either of those circumstances.

Finally, we recommend that further application guidance could be provided with respect to the importance of representations from the responsible party with respect to the reliability of the subject matter of the performance audit.

We would be pleased to discuss our comments with you. If you have any questions, please contact Trent Gazzaway, National Managing Partner of Professional Standards, [REDACTED]

Sincerely,



cc: James R. Dalkin, Director, Financial Management and Assurance, U.S. Government Accountability Office