



August 2, 2017

Mr. James R Dalkin, CPA
Director
Financial Management and Assurance
U.S. Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Dalkin:

Re: Comments on *Government Auditing Standards 2017 Exposure Draft*

PricewaterhouseCoopers LLP (PwC) appreciates the opportunity to comment on the 2017 Exposure Draft of proposed changes to *Government Auditing Standards* (GAGAS), commonly known as the “Yellow Book.”

We support the GAO and the GAO Advisory Council on Government Auditing Standards’ efforts to strengthen and streamline the standards, and to ensure consistent application of the standards, where applicable, to the various types of audits covered by GAGAS. We also support the efforts to ensure the Yellow Book reflects, where appropriate, developments in auditing, accountability and financial management standards since the previous Yellow Book was issued in 2011.

Our primary concern with the 2017 proposed changes relates to Chapter 6, Paragraphs 6.16-6.18 Waste and Abuse. We believe the inclusion of the concept of “waste” should be deferred until a future update to GAGAS to allow time for the GAO to work with various stakeholders to develop a definition of waste that auditors are able to objectively apply to recipients of Federal funding in practice. There needs to be guidance, along with several examples, concerning what should be reported as well as what should not be reported as waste. For example, under the new guidance as proposed an auditor that is reporting on the results of compliance work over a Federal program such as a specific type of research might be required to conclude the award was a waste of taxpayer funds because there is no immediate use for the research. In this example there is presumably documentation with the awarding Federal agency that explains the need for the research. At a minimum we believe that within Paragraph 6.18 the phrase “Because the determination of abuse is subjective” should be changed to say “Because the determination of abuse and waste is subjective”.

Our other comments on the Exposure Draft are included in the accompanying Appendix to this letter, in the order in which they relate to the Exposure Draft.

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We appreciate the opportunity to express our views. If you have any questions regarding our comments, please feel free to contact [redacted] at [redacted].

Sincerely,

PricewaterhouseCoopers LLP

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Comments relating to the Proposed Revisions to Chapter 3:

Ethics, Independence and Professional Judgment

Individual “capable of detecting a material error, omission, or misstatement”

In response to question no. 2, as posed in Enclosure II: Questions for Commenters, we believe the proposed revisions related to nonaudit services sufficiently and clearly explain what is required and prohibited under GAGAS, subject to the following observation.

We note the language used in paragraph 3.67 is generally consistent with the AICPA *Code of Professional Conduct*, Interpretation 1.295.040.01, to the extent that an individual designated by the client to oversee the provision of a nonaudit service should possess suitable skill, knowledge, or experience and should understand the nonaudit service to be performed.

However, the GAO is proposing an additional expectation of this designated individual that is not provided for in the AICPA *Code of Professional Conduct*: that the individual be “capable of detecting a material error, omission, or misstatement.” As no context, rationale or guidance regarding this new criteria has been provided, it is unclear as to the expected benefit or how the GAO believes that such a capability might be reasonably determined by the auditor, how it would be relevant with respect to the provision of a nonaudit service that is unrelated to the financial statements under audit or what the term “capable” means precisely in this context.

We believe existing expectations regarding an individual designated by the client are reasonable and sufficient, and would likely encompass the additional criteria being proposed by the GAO. Accordingly, we suggest the guidance, remain aligned with the language in the AICPA *Code of Professional Conduct*. As a matter of general principle, we believe having a set of criteria aligned with the AICPA *Code of Professional Conduct*, and other independence rules, fosters consistency of application by practitioners and enhances the understanding of independence requirements by those who rely on audited financial statements.

If however the GAO determines this additional criteria is necessary, we suggest that it be added to other paragraphs of the Yellow Book (e.g., 3.81, 3.83).



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Independence with respect to the responsible party versus engaging entity

We agree with the changes in proposed paragraph 3.24, clarifying that independence is required with respect to the responsible party, but not the engaging party (if different). We recognize the Professional Ethics Executive Committee of the AICPA recently proposed a similar change to its definition of “attest client” in the AICPA *Code of Professional Conduct*. We support the efforts to achieve continued alignment between the GAO independence rules and AICPA independence standards.

Independence threat as a form of ethical conflict

The GAO is proposing to add a statement in paragraph 3.41 such that if a threat to the auditor’s independence cannot be addressed through the application of safeguards, it would be considered a form of ethical conflict. If an independence impairment is already present, then the practical implications of a concurrent ethical conflict are not clear. We also note this proposed addition would create inconsistencies between the GAO’s guidance and other independence rules, as such a linkage is not explicitly stated in the broader independence literature.

Consistent use of “audit,” “audited entity,” and “engagement” terminology

We note there are some instances where the use of the terms “audit” and “audited entity” result in an unclear application of the scope of the engagements or entities to which the Yellow Book provisions would apply. Accordingly, we suggest the GAO consider the inconsistencies created by defining the term “audit” as encompassing only financial and performance audits while the term “audited entity” is defined more expansively to include attestation engagements and financial statement reviews as well. We noted, for example, such inconsistencies in paragraphs 3.18 and 3.20, as well as in paragraph 3.38.

Chapter 4: Competence and Continuing Professional Education

GAGAS Qualification

We agree that a portion of the 80 hour CPE requirement should be specific to GAGAS. However, we believe that 4 hours for this update to GAGAS maybe more than is needed, especially for those auditors (at all levels) who are experienced in performing GAGAS engagements. It is likely that a lesser amount of time would be sufficient for those experienced in the performance of GAGAS audits for this proposed edition of GAGAS.



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Going forward, the specific number of hours should be designated within the specific updated edition of GAGAS to allow for flexibility in accommodating the specific volume and complexity of the future GAGAS updates.

Paragraph 4.16 requires the CPE provider to include within the course description wording that “indicates that its purpose is to fulfill the GAGAS Qualification CPE Requirement.” Generally speaking individuals who purchase a CPE course have no control over the course description. Therefore, GAGAS CPE programs that are otherwise acceptable, may be disqualified because of this technical requirement. We believe this requirement should be removed.

Subject Matter Categories of CPE

Paragraph 4.24b. We suggest clarifying that U.S. generally accepted accounting and auditing principles includes PCAOB standards for those entities covered by PCAOB standards.

Exemptions and Exceptions Application Guidance

We propose the list of exemptions and exceptions section include an exemption for the following:

Many financial services institutions require a financial statement audit that is performed under GAGAS standards as well as AICPA or PCAOB standards because of participation in U.S. Department of Education and/or Department of Housing and Urban Development programs. The auditor of such an institution’s financial statements may include the use of a significant number of audit personnel at all levels from many countries around the globe. The vast majority of those auditors have no impact on the additional GAGAS required portions of the audit. Requiring all such auditors around the globe to comply with GAGAS CPE requirements; and the related monitoring and tracking of GAGAS CPE requirements is a significant burden to the audit organization.

We believe that consideration should be given to allowing the engagement core audit team to determine if and when; and which global auditors need to comply with GAGAS CPE requirements. The core team should be required to document its determination and rationale in its audit documentation.