July 6, 2017

Gene L. Dodaro, Comptroller General of the United States
U.S. Government Accountability Office
441 G St. N.W.
Washington, DC 20548

Dear Mr. Dodaro:

On behalf of the Association of Government Accountants (AGA), the Financial Management Standards Board (FMSB or Board) appreciates the opportunity to provide comments to U.S. Government Accountability Office (GAO) on its April 2017 exposure draft entitled *Government Auditing Standards*, commonly known as the Yellow Book. The FMSB is comprised of 22 members (list attached) with accounting and auditing backgrounds in federal, state and local government, as well as academia and public accounting. The FMSB reviews and responds to proposed standards and regulations of interest to AGA members. Local AGA chapters and individual members are also encouraged to comment separately.

We commend GAO on their efforts to streamline and regroup the standards that provides clarity and direction in the governmental audit arena. We have some general concerns and have provided feedback on the questions provided in the exposure draft.

### Waste

We have a significant concern with the proposed requirement to report “waste” in a financial or attestation engagement. Consideration of waste is a) outside the scope of a financial or attestation engagement and b) highly subjective in nature, such that only a performance audit would provide sufficient, appropriate evidence for a conclusion on waste.

Fraud, abuse and noncompliance have to do with the validity of transactions and are widely recognized as having relevance to financial audits (see Green Book OV2.24, AU-C 240 and AU-C 250). In contrast, waste is a judgment regarding the efficiency or effectiveness of transactions and is specifically described as a separate control objective in the Green Book and “irrelevant” to financial statement audits in AICPA standards (AU-C 315.A72-A73).

Fraud, abuse and noncompliance are objective and can be consistently recognized. In contrast, waste is highly subjective. Look no further than the daily news on TV or the internet and you can find knowledgeable, intelligent people disagreeing over whether a government program is essential or a complete waste. To objectively report on waste, a performance audit with a development of criteria, benchmarks and methodology is necessary to objectively support conclusions about waste. Therefore, as potential waste could be seen “anywhere,” financial and attestation engagements will regularly need to determine whether to:

1. report “waste” without sufficient evidence based on the auditor’s impression or
2. do a performance audit as part of their financial audit or attestation engagement, even though the work on this will be superfluous to the work otherwise planned for the engagement. As a reminder, efficiency and effectiveness are not part of the reporting or compliance objectives.
Since waste is a separate objective (efficiency and effectiveness) than financial (reporting or compliance), addressing it in the auditor’s report will risk drawing attention away from the actual objective of the audit. In other words, we can only see it widening the “expectation gap” and promoting misunderstanding about the scope of the auditor’s work. If material waste is not found, many citizens and legislators who may have a cynical view of government may have reason to doubt the audit. If it is found, the finding of waste would far overshadow the actual opinion on the financial statements, which is the auditor’s objective. The fact that the GAO specifically says that the determination of whether fraud, waste, or abuse “may have to await final determination by a court of law or other adjudicative body” (para 9.34) is one reason why we question why GAO would want an auditor to use the labels identified in paragraphs 9.32 and 9.33 in an audit. If GAO is going to keep waste as part of auditor’s responsibility we recommend that clarifying language be provided regarding the reporting expectations.

The fact that GAGAS has separate standards for performance audits and that these audits are actually conducted far differently than financial and attestation engagements should evidence that auditing efficiency and effectiveness requires a separate, distinct audit - a performance audit.

CPE Convergence
The AICPA and NASBA recently updated their CPE requirements. In particular, they are allowing for so-called ‘nano’ training that provides CPE in 10-minute increments. A large body of research on the future of learning went into this effort. As a result, we encourage GAO to align the CPE requirements with AICPA and NASBA to allow government auditing standards to fully align with the latest developments and trends in learning.

Exposure Draft Questions
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.

   A. From a user perspective, the usefulness and understandability of the document is enhanced with the revised format. Each requirement is clearly distinguished and separated by the effective strategies for implementing the requirements. This new format makes it clear of what the requirements are and leads to helpful ideas for implementation.

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.

   A. Although paragraphs 3.67 through 3.101 explain what is required and discuss the concept of “prohibited” nonaudit services, GAGAS does not expressly identify any specific activity as a prohibited nonaudit service. Instead, it forces the auditor to use the “presumptively mandatory” definition of “should” to assume that prohibited nonaudit services are any that the auditor “should” conclude as one that would impair the auditor's independence (the term, “must,” is not used in these paragraphs). If that is the case, it is difficult to understand the intent of the language in 3.87, which is also
language in the 2011 Yellow Book, that states “Auditors may be able to provide nonaudit services in the broad areas indicated in paragraphs 3.88 through 3.101 without impairing independence” if the nonaudit services are not expressly prohibited by GAGAS requirements, the requirements for providing nonaudit services have been met and the application guidance has been considered, and application of safeguards has eliminated any significant threats to independence or reduced them to an acceptable level. We suggest a clarification of the intention of the word “should” in these paragraphs. If the intent is that the use of “should” in these paragraphs means the nonaudit service is a prohibited service, government auditing standards should explicitly prohibit the service or change the language that implies there are times when these types of services may be performed.

The term “on behalf of the audited entity” is not clear as to intent. Suggest changing to, “when requested by the audited entity.” For clarification, consider going back to the language that was in Para 3.25 of the 2007 Yellow Book, which clearly defined three categories of nonaudit services based on their impact on auditor independence, and clarifying which of the three categories require or do not require oversight by a designated individual in the audited entity.

We suggest moving paragraph 3.80 to 1.22 since the placement in Chapter 3 is seemingly disconnected with the remainder of the chapter. Moreover, the examples given appear to be either attest or non-audit services that do not need exemption. This section should be removed unless these services can be adequately defined and a compelling rationale provided for exemption from independence considerations.

We had several members of our board suggest that further application guidance be provided by GAO relating to documenting the threats and safeguards applied to eliminate and reduce threats to an acceptable level or decline to perform the services. For example, from a practical/limited resources perspective, many of the financial statements of small governments are compiled/prepared by the auditor. We believe that if the proposed standard is going to prohibit such services we believe further examples/guidance are necessary.

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?

A. Requiring audit organizations to force their respective position classifications into the three categories described in Para 4.10 creates difficulty in applying the concepts given the wide variety of titles, levels of positions, and reporting structure that an organization may have. We suggest defining the roles without using the titles. Also, different terms are used in other places in the Yellow Book, such as “principal and senior manager” in paragraph 4.10. We encourage the GAO to make sure there is consistency in applying titles to responsibilities. We suggest that GAO reference, as a resource, the AICPA’s Competency Framework—Government Auditing. It provides a comprehensive guide covering the levels of proficiency.

We believe that many may interpret the requirement in Para 4.03 that audit organization management “must” assign auditors who at the time of assignment possess the competence needed for their assigned roles as meaning that they cannot
assign an auditor to a project for development purposes. It also seems a bit contradictory with Para 4.04, which requires the workforce to have the knowledge, skills, and abilities necessary to conduct the engagement.

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.

A. The topics listed seem sufficient as stated in the exposure draft of “subjects and topics directly related to the government environment, government auditing or the specific or unique environment in which the audited entity operates.” However, the examples in paragraph 24 omit many of the previous topics related to the government environment that were present in the 2005 CPE guidance (paragraph 18a). Some of these are information technology auditing, fraud auditing and topics directly related to the government environment. Some members of the Board believe that including the Internal Control-Integrated Framework would be an excellent topic as acceptable for CPE since auditors issue the “report on internal control over financial reporting and on compliance and . . .”

We suggest revising paragraphs 4.15-4.18 to clarify that the 4-hour requirement is triggered only when GAGAS is revised, that auditors who review the work of others should obtain the four hours of CPE on GAGAS topics prior to starting an engagement that will be performed under the revised standards, that new auditors should fulfill the 4-hour requirement by the end of their first full 2-year CPE reporting period, that other auditors should fulfill the 4-hour requirement by the end of the next full 2-year reporting period after the GAGAS revision is issued, and that the 4 hours of CPE should focus on what was changed in the standards. Several concerns were expressed related to the ability to conduct a training on GAGAS that would reach the 4-hour requirement. Consideration should be given to shortening the time requirement to 2 to 3 hours.

There are also concerns for staff that have limited government auditing work but due to HUD requirements the staff which work on banks and audit HUD loans may be the only time a staff works on an engagement subject to Government Auditing Standards. There may need to be exceptions since the majority of the information in the Yellow Book will never come into the career of these staff.

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?

A. Paragraphs 4.20-4.50 regarding the application materials contain a lot of specific instructions. We believe these should be categorized as requirements if they are intended to be followed without deviation. For example, guidance in 4.48 would need to be a requirement in order for an audit organization to demonstrate (and a peer review to effectively evaluate) compliance.
The GAGAS CPE guidance document offered many more suggestions as to topics that qualify for the 24-hour and 56-hour requirements. Suggest expanding the list to incorporate those topics. We also noted the CPE guidance document was not as clear regarding the distinction between a topic that was listed as an allowable topic for both requirements qualified under the 24-hour and the 56-hour requirement. We suggest the GAO clarify that determination.

Several of the subjects and topics previous listed in the GAO-05-568G document have either been condensed or removed entirely. Is the intent to make it a more “general approach”? It seemed the proposed approach would lead to confusion between the CPE eligible for the 4hr/24hr/80hr requirements. Many of our Board members believe that the subjects removed from the 24 hours section that affect the government entity or program which would be pertinent to the government auditor. We also noted in the GAO-05-568G document there were several detailed topics for the remaining 80-hour requirement that would be very useful information on detailed topics that qualify. In paragraph 27 in the GAO-05-0568G document it discussed rounding down when CPE hours aren’t divisible by 50 minutes. We recommend the item be specified in the new Yellow Book document and remove the 70 percent and replace with pass.

If the GAO is wanting to present the information in general terms we suggest clarifying two points –

1) The CPE should focus in maintaining or improving the auditor’s skills for the type of audits the auditor performs (e.g., accounting CPE should not count as Yellow Book CPE for an auditor who only conducts performance audits) and

2) We believe that sitting for a professional certification examination does not qualify as CPE “even when the sponsoring professional organization provides or waives the CPE requirement when the exam is passed” (para 4.43.h).

We suggest also allowing up to five hours of CPE for participating on an external peer review that is conducted under one of the programs listed in Para 5.64. Conducting a peer review requires the team members to drill down into the standards to make a determination regarding the audit organization’s compliance with the standards and thus, also becomes a training opportunity for the team members. Many government internal auditors, particularly at the local level, use both GAGAS and the International Standards for the Professional Practice of Internal Auditing promulgated by The Institute of Internal Auditors. Those standards allow conducting a peer review to count for up to five hours of CPE for five of The IIA’s six certifications and up to ten hours for one of its certifications.

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?

A. The requirement in Para 5.09 for all audit personnel to provide written affirmation of compliance with its policies and procedures is not clear about whether this is a prospective requirement (i.e. “I will comply”) or a retrospective requirement (i.e., “I did comply”). Also, because many audit organizations require their auditors to sign an independence statement for each audit engagement, which includes a requirement to comply with the audit organization’s policies and procedures when conducting the engagement, does this satisfy the requirement?
The language in Para 5.24 is not clear about who should participate in the consultation (i.e., is it for audit staff to resolve a contentious issue among themselves or for audit management to discuss and attempt to resolve a contentious issue with management in the audited entity?). If it is the latter, then the audit organization may not have control over whether the audited entity implements the agreed-upon solution, as required in Para 5.24.d.

As part of our review of the Exposure Draft, we noted the following additional items that are in need of clarification in Chapter 5:

5.03 – This section currently describes quality control using only control environment and control activities elements. We recommend that the quality control to be described as including all five components from the COSO or Green Book framework.

5.51 – We suggest including the following additional potential monitoring procedures:
- root cause analysis of potential audit failures, such as report re-issuance or material prior period adjustments
- tracking audit quality indicators
- review and follow-up on exception reports indicating potential quality issues
- pre- or post-issuance inspection of engagement documentation or reports
- cross-cutting reviews of specific requirements or topics

5.53 – This guidance appears to be counter to the guidance provided in AU-C 220 as it would preclude “engagement quality control reviews,” from being considered a monitoring activity. These are defined in AU-C 220.21(c) as being pre-issuance. Rather than precluding any pre-issuance reviews from the definition of monitoring, we suggest focusing on the concept that monitoring is not a substitute for regular quality control procedures and therefore should be conducted in addition to regular controls. This means it would normally be done either simultaneously or after application of regular quality control 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?

A. Although the requirements are clear, some audit organizations may be affiliated with one of the organizations recognized in Para 5.64 but for various reasons, may not be able to use the peer review services of that organization. Suggest changing the language in Para 5.64 to, “Audit organizations that obtain a peer review through one of the following recognized organizations should comply...” and the language in Para 5.65 to, “Any audit organization not using the peer review services of one of the recognized organizations in paragraph 5.65 should meet...”

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.
A. We believe that a general reference to the applicable sets of standards is more than necessary to avoid confusion or obsolesce if SSAE 18 or SSARS 21 are amended or replaced.
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?**

A. The expanded requirements are generally clear, but they seem to increase the burden of responsibility for the auditors. There also seems to be somewhat of a disconnect between the requirement for the auditor to assess internal control that is significant to the audit objectives (Chapter 8) and the requirement to report on how the auditors considered the concept of accountability for use of public resources and government authority (Chapter 9), which may not be significant to the audit objective. We recommend clarifying these items as well as making the requirements the same as GAS.

The requirement in Para 9.25 for auditors to report if the audit did not consider all internal control components, and that if it had, deficiencies may have been identified that could impair the effectiveness of the controls evaluated as part of the audit, could cause users of the report to question why the auditors did not evaluate all components of internal control and, therefore, the reliability of the audit. The requirement causes the auditor to speculate that something more may be deficient than what the auditor is reporting, does not add value to an audit report, and should not be required. We recommend removing this requirement.

Although the discussion of internal control assessments begins at Para 8.37, the reference to the Standards for Internal Control in the Federal Government and the COSO Framework do not appear until Para 8.123. Suggest adding a reference to these internal control frameworks in the first application guidance paragraph, along with language that using one of these frameworks can help auditors in their assessment of internal control. The GAO is planning to develop an audit tool as supplemental guidance for the Standards for Internal Control in the Federal Government that auditors will be able to use for assessing internal control when conducting performance audits. If this guidance will be published prior to or concurrent with the updated Yellow Book, suggest adding a reference to that guidance. That guidance will likely also address the documentation requirements for assessing internal control. Suggest that the GAO consider the content of that supplemental guidance as they update the Yellow Book to eliminate any redundancy or potential for inconsistencies.

We appreciate the opportunity to comment on this document and will be pleased to discuss this letter with you at your convenience. If there are any questions regarding the comments in this letter, please contact Lealan Miller, CGFM, FMSB Chair, at lmiller@eidebailly.com or at 208-383-4756.

Sincerely,

Lealan Miller, CGFM, CPA
Chair- AGA Financial Management Standards Board
We have also included other comments from members of the FMSB for your consideration.

1.23 – We suggest editing to converge with AU-C 620 definitions “Specialist – An individual or organization possessing expertise in a field other than auditing or accounting that assists auditors in conducting engagements.”

Also, we found inconsistency in defining key terms. Paragraph 1.23 includes definitions of some key terms, but not all. In some cases, a reader is referred back to Paragraph 1.23 when the term is used through the use of a footnote (see FN 13), but not always. Other terms are not defined, but the reader is not referred to other guidance where the terms are defined. For example, the term, “three categories of entity objectives” is used without defining it or referring the reader to the Green Book or COSO Framework where a definition is provided. In other cases, key terms are defined within the text rather than in Paragraph 1.23 These include “must,” “should,” “fraud,” “waste,” “abuse,” and “program,” which is actually defined in 8.08, 8.19, and 8.117, and “experienced engagement team member”.

2.14(e) - References the “Information Systems Audit and Control Association,” which is the former name for ISACA. Suggest changing the language to read, “ISACA, formerly known as the Information Systems Audit and Control Association.”

3.25 – This paragraph states that government auditors who work under civil service statutes that permit staff members to seek employment with audited entities is an example of a condition that does not permit independence. Suggest clarifying the language to align with Paragraph 3.46.b, which states that independence is impaired when a member of the audit team enters into employment negotiations with an audited entity.

3.50.a – Consider adding “or outcomes” after “fees.”

3.54 - We suggest editing to align language parallel to 3.62 description of safeguards “External audit organizations that are structurally located within governments may be subject to one or more of the following three categories of safeguards to mitigate eliminate or reduce structural independence threats to an acceptable level:”

Paragraph Numbering – Consider renumbering paragraphs 3.55 through 3.57 as part of 3.54, with the current 3.54 being the introduction, then each of the categories being 3.54.a, 3.54.b, and 3.54.c, respectively, and the subparagraphs within those being 3.54.a(1), 3.54.a(2), etc., since these paragraphs are more of a continuation of 3.54 than new concepts. Also, suggest a header at 3.58 to clarify where Category III ends.

3.59 – Footnote 14 references the 2016 version of the International Standards for the Professional Practice of Internal Auditing. The Institute of Internal Auditors updates its standards more often than the GAO updates the Yellow Book. For that reason, suggest reference the International Standards without referencing the specific version.

3.63 – Please consider adding more examples of potential safeguards, such as dedicated funding by law, procurement of the audit by a third party such as a legislative oversight agency, jointly conducting the audit with another audit organization, and/or audit organization policy for periodic supervisor or audit team rotation.

4.32(j) – We suggest editing to align with the AICPA and NASBA’s Statement on Standards for Continuing Professional Education Programs S20-03: “developing or technical review of courses or the course materials for programs that qualify for CPE hours”
4.31 – We strongly suggest convergence with the AICPA and NASBA’s standards to allow CPE for nano-learning programs (that is, in 10-minute increments, rather than a minimum of 50 minutes with 25-minute increments thereafter). The AICPA’s Future of Learning research makes the case for changes such as this.

4.49 – This section inappropriately suggests that a peer review could act as an audit organization’s monitoring controls. Like an audit, external reviews are not a substitute for controls.

5.21 – the term “Experienced Engagement Team Member” implies a length of time performing audits, but should instead emphasize a certain level of proficiency in conducting audits. Para 8.131 defines “experienced auditor,” which could provide a basis for defining the term in para 5.21 (but suggest defining it in the glossary instead).

5.54 – “Inspection procedures” is a term used in this paragraph but not defined until paragraph 5.56. Please consider moving paragraph 5.56 before paragraph 5.54 as it will clarify.

6.39 (and 7.42) – We suggest editing to avoid implying that requirements for findings in 6.35-58 would apply to immaterial matters not presented in the auditor’s report: “Auditors should communicate findings in writing to audited entity officials when …”

8.04 – We suggest editing for alignment with AU-C 200 “Auditors must plan the audit to reduce audit risk to an acceptably low level for the auditors to obtain reasonable assurance to support their findings and conclusions.”

8.20-22 – These requirements only appear to cover the beginning of the audit and do not contain requirements to communicate audit results, including findings or other matters identified, significant difficulties encountered during the audit or significant disagreements with management (such as those required by AU-C 260).

8.47 – This paragraph implies that design, implementation and operating effectiveness must all be assessed and documented, whereas application guidance in 8.48 implies that the extent of assessment may vary. These paragraphs should be clarified.

8.89 – We suggest convergence with AU-C 500 by using only relevance and reliability to describe the appropriateness of evidence. As defined in 8.100.b, the concept of validity seems duplicate of relevance and reliability.

8.128 – We suggest adding the following requirements to align with AU-C 230:
   • Who performed the audit work and the date such work was completed?
   • Who reviewed the audit work performed and the date of such review?

9.24 – The proposed reporting requirement indicates that auditors should describe in the report how they considered the concept of accountability for the use of public resources. This is self-evident from the auditor’s description of the objective, so what additional language would be necessary in the report? For the same reason, it’s unclear what additional procedures would be necessary to meet this requirement, since there’s no parallel discussion in paragraphs 8.37 thru 8.65.

9.25 – This section would require report language that implies the auditor’s consideration of controls significant to the engagement as required in 8.47 was incorrect or somehow incomplete. This is unnecessary in a performance audit because it will be evident from the auditor’s description of the objective. If this is considered necessary, the standards may as well require all performance audits to include a statement that “had the auditor’s objective been different, then additional or different findings may be reported.”
9.65 – We suggest:
(1) making the auditor’s responses conditional upon a belief that there are users currently relying on or likely to rely on the previously issued report (like AU-C 585.07) and
(2) allowing issuance of a follow-up performance audit with appropriate disclosure of the matter (ie: AU-C 560.A21).

Convergence on these points will allow for more appropriate handling of situations where issues with an old performance audit are discovered as part of a follow-up audit, or issues are discovered with a performance audit that is obsolete (for example, a performance audit on a program that no longer exists).

We also suggest application guidance following 9.65 to explain that auditors have no responsibility to remove old performance audits or replace with new performance audits to address the effects of subsequent events or corrective action taken.

Association of Government Accountants
Financial Management Standards Board

July 2016 – June 2017

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