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Ms. Jeanette M. Franzel  
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441 G Street, NW  
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Dear Ms. Franzel:

On behalf of the members of the National State Auditors Association, we appreciate the opportunity to respond to the 2010 exposure draft of *Government Auditing Standards* (GAGAS). Below are NSAA's responses to the specific issues presented in the exposure draft, as well as comments on specific paragraphs within each chapter. Additionally, we are providing editorial comments in an attachment to this letter.

### 1. **Please comment on whether the realigned structure of chapters 1 and 2 improve the organization of GAGAS.**

The realigned structure of Chapters 1 and 2 seems appropriate and clear. The chapters are arranged in a logical structure that provides readers with an overview of the concepts and ethical principles underlying GAGAS prior to discussion of the standards. The early emphasis on the importance of accountability and oversight in government allows auditors to recognize the impact of those concepts on the structure and content of GAGAS. When auditors have a clear understanding of these concepts they more easily recognize the objectives underlying GAGAS and how the standards establish a framework for conducting audits that provide the information necessary to ensure accountability and transparency in government.

### **Additional comments on chapters 1 and 2**

1.03 – Use of the word *providing* in the first sentence implies the auditor is responsible for performing functions that are normally management's responsibilities. We recommend GAO revise the sentence to indicate, "Government auditing is essential in *reporting* on government accountability" rather than "essential in *providing* government accountability."

1.04 – We suggest GAO add "and attestation engagements" to the end of the second sentence of this paragraph since the auditor also follows these standards when performing an attestation engagement. This is consistent with the wording in the other paragraphs of this chapter.

1.14 – We suggest GAO add "and attestation engagements" after "conduct audits" in this paragraph since the auditor also follows these standards when performing an attestation engagement.

1.17 – We suggest GAO add "or attestation engagement" in the last sentence as follows, "...requesting the audit or attestation engagement..."

1.23 – This paragraph addresses an auditor misusing their position for personal gain but only describes the auditor's possible damaged credibility from improper *financial benefit*. We believe there are other benefits the auditor could gain from misusing their position such as achieving reelection or some other social status. We recommend GAO revise the paragraph to address such improper benefits.

2.01 – In the first sentence, we suggest the GAO add “and attestation engagements” after the word “audits” to be consistent with other references.

2.07.a – This paragraph refers to “U.S. generally accepted accounting principles (GAAP) or with an applicable financial reporting framework.” We note that in the AICPA’s clarity SASs, GAAP is an applicable financial reporting framework. We suggest GAO insert “other” between the “an” and “applicable,” or make some other appropriate revision to the sentence.

2.08 – To convey awareness of *AT Levels of Assurance*, we suggest the following sentence be added prior to the last sentence in the paragraph, “Also, the AICPA recognize that the conclusion and form of the report are based upon the auditors’ obtained level of assurance as appropriate to the type of attestation engagement.”

2.08.b – We suggest GAO add a footnote to the last sentence of this paragraph to cite the source of restriction. We suggest the footnote read “See AT Section 601, *Compliance Attestation* paragraph .07.”

2.12 – We recommend GAO add “and audit organization independence” as follows, “...may have on auditor and audit organization independence ...”

## **2. Please comment on the conceptual framework discussed in chapter 3.**

We generally believe that the conceptual framework provides a reasonable process for identifying and assessing threats to independence, and identifying and applying safeguards, when necessary, to eliminate or reduce threats to an acceptable level.

### ***Additional comments on the conceptual framework paragraphs (3.06-3.26)***

3.10 – For improvement, we suggest GAO consider providing more guidance on the procedures used to identify threats to independence. This discussion could be done in a similar context as the risk assessment procedures discussed in the AICPA standards.

3.12 – We believe that an audit organization’s placement within the government organization can represent a strong safeguard to independence. Therefore, to provide a more complete discussion of the safeguards that can mitigate threats and to highlight a critical safeguard used to mitigate a structural threat, we suggest that a reference be included in the Safeguards section (paragraphs 3.12-3.19) to the section entitled Government Auditors and Audit Organizational Structure (paragraphs 3.27-3.30).

3.15.d and e – We have the following suggestions relating to the list of audit organization-wide safeguards:

- We suggest GAO remove the term “documented” in items d and e. By definition, an audit organization’s policies and procedures should be documented and accessible.
- We suggest item d be revised to include procedures. It seems odd that only policies would provide the safeguard. The procedures to implement those policies are needed as well. This concept is used in the other bullets in this paragraph.
- While item d may be grammatically correct, it caused confusion for some. We suggest item d be revised as follows:

d. policies **and procedures** regarding the need to **(i)** identify threats to independence, **(ii)** evaluate the significance of those threats, and **(iii)** apply safeguards to eliminate or reduce the threats...

3.15.i – The use of the word “prohibit” seems regulatory. We suggest using the word “prevent,” as this is a better representation of what the safeguard is attempting to do.

3.15.j and n – Item j refers to “audit management” and item n refers to “senior levels.” If the intent is for these to refer to the same position level, we suggest using the same terminology for consistency.

3.15.n – The use of the word “publish” has a certain connotation, such as in the world of newspapers and magazines. We believe that is not the intention of this safeguard, but rather to make it prominent to the audit organization's staff. We suggest “publish” be replaced with a word that will be more clearly understood.

3.19 – For clarity, we suggest the second sentence be revised as follows, “Legislation and regulation can likewise provide safeguards **by requiring implementation and monitoring of compliance** with requirements...”

3.25 – We think this paragraph implies that the auditor only has to notify all persons known to be using the report if the auditor identifies a threat to independence after issuing the report and the auditor determines that the threat would have resulted in the audit report being different from the report issued. We believe instead of leaving it up to the auditor to interpret if this is the meaning of this paragraph, GAO should modify the paragraph to clearly indicate that notification is not necessary in such instances where the threat would not have resulted in a different audit report.

We also suggest GAO consider providing additional guidance regarding the circumstances that would warrant this communication. For example, if the audit organization knows that a member of the audit team has entered into employment negotiations with the audited entity, the audit organization will generally remove either that person or themselves from the audit. However, if the audit organization learned of the interview after they issued the audit report, will the proposed standard require they notify the recipients of the report? This should be clarified.

**3. *Please comment on whether the exposure draft has clearly defined specific nonaudit services that would impair the auditors’ independence in the government environment and whether the specific nonaudit services identified are the appropriate activities to be included in the prohibited category.***

Overall, the types of nonaudit services discussed in the chapter appear reasonable. However, paragraph 3.43 is not clear regarding impairments to independence with regard to nonaudit services. The last sentence of paragraph 3.43 states that auditors should use the conceptual framework to assess independence given the facts and circumstances of individual engagements for services not specifically prohibited in this section. It seems that this is not the appropriate wording since many of the nonaudit services listed provide for evaluation of the entity’s management’s oversight in determining impairment.

For example, paragraph 3.46 states that accepting responsibility for financial statement preparation would impair independence but then goes on to say auditors should determine that the audited entity management taking responsibility for the preparation and fair presentation of the financial statements possesses suitable skill ... to evaluate the adequacy of any services in this area provided by the auditor. This seems contradictory to us. It seems that paragraph 3.46 does not specifically prohibit financial statement preparation.

We suggest GAO clarify whether their intent is that any nonaudit services discussed in this section should be considered as specifically prohibited, or whether these nonaudit services should be considered as potential impairment issues and the auditor’s threat assessment would provide the final independence determination. If GAO’s intent is the latter, the heading prior to paragraph 3.43 should be revised to clarify that the nonaudit services may impair audit independence. If the intent is the former, the inconsistencies in the proposed draft need to be addressed.

In addition, we suggest that GAO ensure the final draft is clear and specific as to whether the nonaudit services, as discussed in paragraphs 3.43 through 3.51, may result in an impairment to an auditor's independence or to the audit organization's independence, or both.

***Additional comments relating to specific nonaudit services***

3.48 – This paragraph provides examples of internal audit services that involve assuming management responsibilities that would impair independence. However, it seems that this presumes that every internal audit department, or every internal audit activity relates to areas within a government that will be the subject matter of an audit (financial or performance). Our experience is that many times, the government internal auditors we encounter do very little that is related to the subject matter of our financial or performance audits. While the circumstance of each government's internal audit activities may vary, we find it very likely that most, if not all, of the examples provided could, in any number of circumstances, be provided without impairing independence. We ask the GAO reconsider the absolute nature of these examples.

3.49 – This paragraph does not clearly present the information explaining how internal control monitoring and assessments is a nonaudit service that impairs audit independence. The use of the title "Internal control monitoring and assessments" in identifying the prohibited nonaudit services implies that assessing the client's internal controls would impair independence. However, the descriptions in paragraph 3.49 are really talking about monitoring. The exposure draft correctly indicates that assessing internal controls would not necessarily impair independence unless it becomes part of the client's monitoring process. In fact, every financial statement audit requires that the auditor perform some level of annual internal control assessment. Due to the confusion provided by this paragraph, we suggest GAO make it clear that that this discussion relates to when an auditor takes on management's responsibility for monitoring and assessing internal control, not when auditors assess internal control as part of their audit. In addition, we suggest that GAO revise the paragraph to separate out the individual processes through bullets or other formatting.

3.50.a, 3.49, 3.36.h, and 3.41 – The first sentence in 3.49 implies that designing and implementing any IT system would create a threat to auditor independence since designing and implementing an IT system also would generally involve designing and implementing information system general controls, application controls, and user controls, and designing and implementing controls is a management responsibility. The example in 3.41 uses a similar example followed by a statement that a threat to independence may exist by providing this nonaudit service.

The examples related to providing a nonaudit service that involves designing and implementing an IT system are so similar that they add confusion, rather than aiding the determination of when an auditor's independence or an audit organization's independence would be threatened when an auditor provides such nonaudit services.

We suggest rewriting these examples to help auditors more clearly understand when it would be acceptable, if ever, to design and implement an IT system without creating a threat of impairment to independence. For example, use a single example of an auditor's involvement in designing and implementing an IT system and cite the circumstances under which this would not be considered a threat to the auditor's or audit organization's independence, when it would be a threat that could be mitigated by applying safeguards, and when it would be a prohibited activity. Using this type of example would help provide a framework against which auditors could compare other situations to evaluate the extent to which a nonaudit service might create a threat to independence and the appropriate action to take.

***Additional comments on chapter 3***

3.01 fn18 – The reference in footnote 18 is too vague. It refers to Chapter 5 for "an additional general standard applicable only to attestation engagements." We suggest GAO revise the footnote to specifically reference paragraph 5.01 where the additional general standard is found.

3.31.d – This paragraph describes the criteria for internal auditors that indicates independence. In item d, the word “access” is confusing because it can be widely used to mean different levels of access. We presume this means that the internal auditor has a relationship with those charged with governance that allows open communication and the ability to interact. We suggest GAO use a better word to convey that, or to recast this item to make a clearer distinction about the level of access intended here.

3.34 – This discussion is predicated on an audit organization accepting an “engagement” to provide nonaudit services. As a state audit organization, the notion of accepting engagements is not used, and is a concept rooted in public accounting firm practice. Further, many nonaudit services may not be formal “arrangements” at all. For both these reasons, we recommend replacing “accepts an engagement” with something else, perhaps something as simple as “agrees.”

3.34 – We suggest GAO consider revising this paragraph to include a brief description of non-audit services and how they differ from an audit or attestation engagement.

3.35 – We recommend that the term “member” be clarified as “auditor” or “audit team member” or similar terminology.

3.42 – The use of the words “in combination” in the first sentence is confusing. We suggest this terminology be revised or removed for clarity. In addition, we suggest the phrase “impair independence” be revised to read “threaten, and depending on significance, impair independence.”

3.52.a-c – We suggest the GAO consider revising the documentation requirements in this paragraph to provide clearer guidance. We believe the current wording can be improved to require auditors to clearly document the following: a) the nature of each threat, b) the matters considered to evaluate the threat and its impact on the audit, c) a description of the specific safeguard(s) that eliminates or reduces the threat to an acceptable level (where applicable), including documentation of how the safeguard(s) specifically mitigates the threat.

3.69 fn26 – We suggest footnote 26 be revised to include the sentence, “*The GAO has developed guidance pertaining to CPE requirements to assist auditors and audit organizations in exercising professional judgment in complying with the CPE requirements.*” This sentence was deleted from the text of the July 2007 revision. We believe that additional sentence provides better context for the use of that footnote.

3.82 – The requirement in this paragraph runs to independence, legal, and ethical requirements. However, the only discussion that follows in the bulleted list relates to independence. We suggest the discussion be expanded to also include the legal and ethical component of this requirement.

3.83 – We suggest the phrase “legal requirements” be replaced with “professional standards.” This was a change from the 2007 revision and we are unsure of the intent of the change.

3.93 – For clarity, we suggest that “for review” be added to the end of the first sentence. In addition, the term “practice” in the second sentence should be changed to “audit organization” to agree with terminology used throughout.

3.99 and 3.100 – We disagree with the removal of the references to the letters of comment that were contained in the 2007 revision. These letters may provide specific information that could affect an audit organization’s decision on whether to enter into a contractual agreement with a firm to perform an audit or attestation engagement in accordance with GAGAS. Due to the difference in terminology used by organizations that conduct peer reviews, we suggest the paragraphs be revised as follows:

3.99 Information in peer review reports may be relevant to decisions on procuring audit or attestation engagements. Therefore, audit organizations seeking to enter into a contract to perform an audit or

attestation engagement in accordance with GAGAS should provide the following to the party contracting for such services:

- a. the audit organization's most recent peer review report and any separate written communication, if issued under that peer review program; and
- b. any subsequent peer review reports and any separate written communication, if issued under that peer review program, received during the period of the contract.

3.100 Auditors who are using another audit organization's work should request a copy of the audit organization's latest peer review report and any separate written communication, if issued under that particular peer review program. The audit organization should provide these documents when requested.

3.100 – We are unsure of the meaning of “using” another audit organization's work. We suggest GAO clarify whether this requirement is applicable when making reference to the work of another audit organization, or using another audit organization's work as evidence, or both.

**4. Please comment on whether chapter 4 sufficiently and clearly explains what is required under GAGAS.**

Chapter 4 sufficiently and clearly explains the requirements under GAGAS. The objective of minimizing the duplication in the text of AICPA requirements improves the readability of the chapter and it is easier to identify the specific requirements of GAGAS when they are presented without the related requirements contained in the AICPA audit standards. The flow from the AICPA standards, the additional standards of GAGAS, and the emphasized areas within GAGAS is much more clearly understood and with the exception of the items below, is free of redundancy to the AICPA requirements.

4.18.a – We question how the requirement in paragraph 4.18.a, which states that supervisory review should be documented before the “audit report is finalized,” is a requirement that is beyond the AICPA requirements. AU 530.01 states that, “The auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion.” Sufficient appropriate audit evidence should include evidence of supervisory review, as stated in footnote 1 of AU 530.01. If the requirement under paragraph 4.18.a is “above and beyond” the requirements under AU 530.01, we believe that additional discussion should be added to paragraph 4.18.a to provide details of what is expected beyond the requirements of AICPA standards. If the requirement under paragraph 4.18.a is not above and beyond the requirements under AU 530.01, then we suggest that paragraph 4.18.a be removed from the final draft.

4.26 – As further explained in our comment to Question 5, it is not clear what in this paragraph is an additional requirement beyond what is required by the AICPA (see Clarified SAS on *Communicating Internal Control Matters Identified in an Audit*, paragraphs 11 and A17). We note and agree with the inclusion of paragraph 4.51 of this ED as a matter to be emphasized. However, because the requirement set in paragraph 4.26 is redundant with the clarified SAS, we recommend paragraph 4.26 be removed.

**5. Please comment on whether you believe GAGAS should add a requirement that the written communication pertaining to remediated internal control deficiencies and material weaknesses be included in the auditors' report on internal control.**

Generally we agree that remediated internal control deficiencies and material weaknesses should be included in the report on internal control. The auditors' report should reflect the conditions of the auditee during the audit period regardless of whether the finding(s) have been remediated. However, we don't consider this to be an additional requirement beyond the AICPA requirement since it is required by SAS 115 (see paragraph AU 325.19) and by the final clarified standard, *Communicating Internal Control Related Matters Identified in an Audit* (Redrafted) (see paragraphs 11 and A17). We suggest that if this is

added, it be an emphasis of the requirements, and be added under the heading "Additional GAGAS Considerations for Financial Audits."

***Additional comments on chapter 4***

4.04 and 4.06 – These paragraphs describe to whom the auditor should communicate; however, they do not include a requirement to report to pass-through entities and other levels of government, or provide guidance on what should be communicated. We suggest GAO include these other entities in the discussion on auditor communication and provide guidance on what to communicate. The AICPA specifically prescribes what the auditor should communicate and we believe the GAO should address the additional items the auditor will communicate on financial audits performed under GAGAS. Additionally, we believe the last sentence in paragraph 4.04 is confusing and we do not understand its connection to the rest of the paragraph.

4.06 – We are unsure if the phrase "if applicable" pertains to the paragraph 4.04 exclusion. This should be clarified.

4.07, 4.09, 4.10, 4.29 – To provide consistency in the terminology used in describing the applicability of GAGAS requirements, we believe the first sentence of paragraphs 4.07, 4.09, 4.10, and 4.29 should include the phrase "or other financial data significant to the audit objectives." In each of these paragraphs, this phrase should be added to the sentence after the words "the financial statements" so they read "...the financial statements or other financial data significant to the audit objectives..."

4.08 – We suggest GAO reconsider the changes made relating to the auditor's responsibility related to noncompliance with the provisions of contracts and grant agreements. The first sentence of this paragraph includes language that "auditors should design the audit to detect material misstatements that result from noncompliance with provisions of contracts and grant agreements that may have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives." This language appears to increase the auditor's responsibility in regard to noncompliance with the provisions of contracts and grant agreements. Paragraph 4.10 of the 2007 revision states that the auditor should design the audit to provide "reasonable assurance" of detecting misstatements that result from violations of the provision of contracts and grant agreements that could have a direct and material effect on the financial statements.

In addition, this language appears to impose more responsibility on the auditor to detect material misstatements resulting from noncompliance with the provisions of contracts and grant agreements than either of the AICPA standards footnoted at the bottom of page 61 of the exposure draft (footnotes 36 and 37).

4.13 – We suggest the phrase "when auditors identify deficiencies" be removed from the second sentence. Its inclusion suggests exclusion of this requirement for fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse (also referred to in paragraph 4.31).

4.16 – The information on developing the elements of a finding lists common factors that may contribute to the cause. The list includes "factors beyond the control of program management." This concept is not clear and we suggest GAO more clearly discuss in the paragraph or add examples in the appendix to clarify.

4.18.a – Please refer to our comment above in response to question 4. If the final draft continues to include the current wording of paragraph 4.18.a, we suggest that the date the "audit report is finalized" be changed to the "date of the auditor's report."

4.19 – The last sentence in this paragraph implies that contracting for a GAGAS audit will facilitate the auditor's use of the other auditor's work. Performing a GAGAS audit does not ensure that auditors have access to other auditor's work, other than in the specific instances of a grantor/regulator relationship, as explained in this paragraph. Given the AICPA's current draft of the Group Audits clarity standard, we do

think this is an important point to be discussed in the final document. However, we believe that a contractual agreement that stipulates a group auditor's access to a component auditor's work – not a contractual agreement for a GAGAS audit – is what is necessary to provide such access. Consequently, we recommend removing the phrase “for GAGAS audits” from the last sentence.

4.21 – We believe that the option allowed by this paragraph, to refer solely to GAGAS because GAGAS incorporates the AICPA standards, is highly problematic. While this option may seem acceptable from the GAGAS perspective, it does not appear to work for the auditor when the auditor is also required to follow AICPA standards. There is nothing in the AICPA standards that allows the auditor to cite solely GAGAS. Those standards require the auditor to cite generally accepted auditing standards AND, if also followed, cite other standards followed (in this case, GAGAS). Therefore, we recommend revising the second sentence in this paragraph to clearly indicate when it would be appropriate to not cite AICPA standards (i.e., when the auditor is engaged to follow GAGAS but not AICPA).

4.25 – This paragraph discusses the separately issued internal control and compliance reports and the need to state in the financial statement report that the internal control and compliance reports were issued separately. However, the last sentence is unclear about which report(s) should carry the referral to a management letter. Certainly, in practice it has been applied to the internal control and compliance reports but could also be interpreted to include the report on the financial statements. We do not believe there should be a reference to a separately issued management letter in the report on the financial statements. Therefore, we recommend that the last sentence be revised to make it clear that this referral is required in the report(s) on internal control and on compliance.

4.25 – We believe that auditors auditing financial statements prepared in accordance with a special purpose framework, such as the cash basis of accounting, as described in paragraph 2.07.b(1), should be required to report on internal control over financial reporting and compliance, similar to audits of financial statements prepared in accordance with GAAP, as described in paragraph 2.07.a. Therefore, we suggest that the following sentence in this paragraph: “This requirement applies to financial statement audits described in paragraph 2.07a.” should be changed to: “This requirement applies to financial statement audits described in paragraph 2.07.a and 2.07.b(1).”

4.27 and 5.23 – Both paragraphs state that, “Determining whether and how to communicate to officials of the audited entity internal control deficiencies that warrant the **attention of those charged with governance, but are not** considered **significant deficiencies** or material weaknesses, is a matter of professional judgment.” [bold added] This statement is not consistent with the new definition of significant deficiency. Any deficiency that warrants the attention of those charged with governance is a significant deficiency. Perhaps these paragraphs should be modified to be similar to paragraph 5.25.

4.29 – The communications required by this paragraph, when made in writing, appear to be “the management letter.” However, the only use of that term is in paragraph 4.25. We suggest this connection be made clearer.

4.36 – We suggest the term “responsible official,” as discussed in this paragraph, be defined and related to how the auditee is referred to in other areas of Chapter 4, such as management and those charged with governance. We would suggest that the term “responsible official” be defined to include those responsible for managing the audited entity, those responsible for responding to audit findings, and other agency officials responsible for implementing corrective action.

**6. Please comment on whether the proposed revisions have clarified the use and the reporting of review-level and agreed-upon procedures engagements.**

We generally agree that the proposed revisions clarified the use and reporting of review-level and agreed-upon-procedures engagements. The exposure draft does a better job explaining the AICPA attestation standards' application at the GAGAS level, especially by removing some of the additional performance



and reporting requirements for the review and agreed-upon-procedures level attestation engagements that significantly altered the intent of reviews and agreed-upon-procedures from the intent of the AICPA standards.

**7. Please comment on whether GAGAS should add a requirement that the written communication pertaining to remediated internal control deficiencies and material weaknesses be included in the auditors' report. Also, please comment on whether the communication requirement should be extended to all types of examination engagements, such as to an examination of compliance with laws and regulations.**

Generally we agree that remediated internal control deficiencies and material weaknesses should be included in the auditors' report. The auditors' report should reflect the conditions of the auditee during the audit period regardless of whether the finding(s) have been remediated. With regard to SSAE 15 (examination of an entity's internal control over financial reporting), we don't consider this to be an additional requirement (see AT 501.103). However, the requirement to include remediated internal control deficiencies in the report is not included in AT 101 or AT 601. We suggest GAO add this requirement and extend it to all types of examination engagements.

**Additional comments on chapter 5**

5.04-5.06 – These paragraphs describe to whom the auditor should communicate; however, they do not include the requirement to report to pass-through entities and other levels of government, nor do they include a discussion of what to communicate. We suggest the GAO include these other entities in the discussion and provide guidance on what to communicate. The AICPA specifically prescribes what the auditor should communicate and we believe the GAO should address the additional items the auditor will communicate when performing a GAGAS attestation engagement.

5.08 – This paragraph appears to increase the auditor's responsibility to detect fraud in an examination engagement. The section states that the auditor "should design the engagement to detect instances of fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements..." The 2007 Yellow Book, paragraph 6.13.a, states that the auditor should design the engagement to provide "reasonable assurance" of detecting fraud, illegal acts, or violations of provisions of contracts or grant agreements..." We suggest GAO reconsider the changes made relating to the auditor's responsibility related to fraud.

5.15 – The information on developing the elements of a finding lists common factors that may contribute to the cause. The list includes "factors beyond the control of program management." This concept is not clear and we suggest GAO add examples in the appendix to clarify.

5.64-5.65 – Paragraph 5.64 requires the auditor to establish an understanding with the entity (client), to include certain specified elements. Paragraph 5.65 suggests the auditor communicate with the individuals requesting the engagement when done pursuant to a third-party request. A number of agreed upon procedure engagements are required and defined by law or regulation. For example, housing authorities are required to obtain an agreed-upon-procedures report in connection with filing information with the Real Estate Assessment Center (REAC) of the U.S. Department of Housing and Urban Development. We suggest supplemental guidance be added to Appendix I to address the situation where the agreed-upon-procedures are defined in law or regulation. For example, to the extent that regulations establish an understanding of services to be performed, the auditor may establish an understanding with the client by reference to the regulations.

**8. Please comment on the proposed revisions to chapters 6 and 7.**

We generally agree with the exposure draft's treatment for performance audits and note that little has changed from the 2007 revision of GAGAS.

**Additional comments on chapters 6 and 7**

6.11.e – This bullet does not have the same “boundary” around it as other bullets in this list with respect to applying it within the context of the audit objectives. We believe it is important to have that boundary so that an auditor is required to gain an understanding of only those ongoing investigations or legal proceedings that are within the context of the audit objectives. Accordingly, we suggest the following revision:

e. ongoing investigations or legal proceedings **within the context of the audit objectives**; and

6.24 and 6.64 – Footnote 94 to paragraph 6.24 instructs auditors to use FISCAM in obtaining a sufficient understanding of information systems controls necessary to assess audit risk and plan the audit. Footnote 107 to paragraph 6.64 instructs auditors to use the “Grey Book” (*Assessing the Reliability of Computer-Processed Data*, GAO-09-680G) in assessing the sufficiency and appropriateness of computer-processed information in regards to completeness and accuracy of the data. It seems that both footnotes should reference both publications.

7.13 – We suggest the last sentence of this paragraph be revised as follows, “...describe the sample design and, **when not clearly evident**, state why the design was chosen...” When it is obvious to a report user why the sample design was chosen, inclusion of this information in the report is not necessary.

**Comments on Appendix I**

General – Throughout the exposure draft, footnotes reference specific paragraphs contained in the Appendix. However, there are several appendix paragraphs that do not have a footnote reference in the body of the document. To ensure readers consider the supplemental guidance contained in the Appendix, we suggest that all Appendix paragraphs be referenced from specific locations in the text of the final standards.

A3.10.c(1) – We suggest GAO change the end of the last sentence to “the normal audit supervision associated with *the individual audits being reviewed*.” We do not believe the staff performing the monitoring must be apart from all the individual audits, which the statement implies.

A3.10.c(5) – This paragraph indicates the audit organization is required to prepare a written report on the results of the monitoring of its quality control systems which gives the appearance of a formal public document. Paragraph 3.89 does not require this level of reporting. We suggest this paragraph in the Appendix be revised to refer to communications required in paragraph 3.89.

We appreciate the efforts of the GAO and the opportunity to provide our comments. Should you have any questions or need additional information regarding our response, please contact Sherri Rowland of NSAA at (859) 276-1147 or me at (804) 225-3350.

Sincerely,



Walter Kucharski  
President, NSAA

**Attachment**  
Government Auditing Standards, 2010 Exposure Draft  
Editorial Comments

<b>Paragraph</b>	<b>Comment</b>
1.06	The phrase “provisions of laws, regulations, contracts, and grant agreements” has not been incorporated into the appendix. We suggest the appendix be revised for consistency.
1.06, 2.09, 6.08	We suggest the phrase “this document” be replaced with GAGAS.
1.19	The second sentence is missing the word “and” before “having intellectual honesty.”
1.22	The use of the word “accountability” twice in the first sentence is redundant. We suggest revising the sentence by removing the first use of the word and beginning the sentence, “As professionals, accountability to the public...”
2.17.a	Split the word <i>fieldwork</i> into two words for consistency with the rest of GAGAS.
3.35	We suggest the word “deployment” be changed to “utilization” or “use.”
3.40	Delete the hyphen in <i>non-audit</i> for consistency with the rest of GAGAS.
3.65, 3.79, 3.82, 6.50, 6.70, A1.08, A2.01, A2.04, A2.05	Add a colon at the end of the paragraph for consistency.
4.07, 6.26, 6.36, 7.18, 7.19, 7.21, A.12	Change <i>within the context of the objectives of the audit</i> to <i>within the context of the audit objectives</i> for consistency and brevity.
4.28.a	We suggest replacing “and” with “or” as follows “Fraud <i>or</i> noncompliance...audit objectives <i>or</i> warrant...”
4.32	The second sentence includes a misplaced comma between “should” and “relate.”
4.36	We suggest replacing “and” with “or” as follows “...contracts, <i>or</i> grant agreements, <i>or</i> abuse” to indicate that the standard is applicable if any of the items in the list are reported. Similar revisions are necessary throughout the reporting sections of the exposure draft.
5.65	This paragraph has a misplaced “that” in the last sentence.
6.34	Change the phrase <i>and provisions of a contract and grant agreement</i> to <i>contracts and grant agreements</i> .
6.35	In the last sentence, <i>on going</i> should be one word.
A.13	Delete the word <i>either</i> in the first and second sentences.
A1.03	Delete the second <i>other</i> in the first sentence.
A2.01.g	Insert the word <i>whether</i> at the beginning of the phrase.