



July 12, 2017

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

Dear Mr. Dalkin:

On behalf of the National State Auditors Association (NSAA), we are pleased to provide our comments on the 2017 Exposure Draft (ED) of *Government Auditing Standards*. We thank GAO for the opportunity to provide feedback on this important document. We also would like to acknowledge GAO's efforts, as well as the contributions of the Government Auditing Standards Advisory Council, in thoroughly reviewing and revising these important standards.

Overall, we appreciate the revised format and agree in principle with the proposed changes. However, as you will see in our attached answers to GAO's nine questions, we do have a number of concerns and suggestions for improvement related to those questions. In addition, we have included a schedule of comments that describes our concerns and suggestions for improvements on a variety of issues not covered in GAO's list of questions. We believe these comments should be considered as GAO finalizes the standards.

Again, we appreciate GAO's efforts in modernizing and updating these standards. Should you have any questions or need clarification on any of our comments, please contact Sherri Rowland, NSAA Director, at (859) 276-1147, or me at (601) 576-2641.

Respectfully,

Stacey E. Pickering
NSAA President
State Auditor, Mississippi

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Question 1: Generally accepted government auditing standards (GAGAS) is presented in a revised format. This is intended to allow auditors to quickly identify requirements and application guidance related to those requirements. In addition, certain topics are regrouped within the chapters.

Please comment on how the revised format of GAGAS affects the organization and readability of the standards.

We are pleased with the overall revised format of GAGAS as the presentation is more aligned with other standards, which we believe will allow users to more easily find and apply guidance during the performance of GAGAS engagements. We believe that the clarification and expansion of the guidance, as well as the incorporation of the information previously contained in the appendix and outside sources (e.g., CPE Interpretation), increases the understandability of the requirements for users. Moreover, we believe these changes will help GAGAS users better understand the requirements and properly apply them in practice.

However, when the requirements are separated from the appropriate text referred to as application guidance, often by several paragraphs or even several pages, it is sometimes unclear how the standard will or can be implemented. For example, paragraph 8.31 requires a written audit plan for each audit and that auditors update the plan as necessary. As written and if viewed in isolation from the application guidance, it appears that there must be a written plan. However, the application guidance allows the form and content of the written audit plan to vary and could include various documents of key decisions about the audit objectives, scope, and methodology and the auditors' basis for those decisions. Furthermore, when multiple requirement paragraphs are followed by multiple application paragraphs, it is not always clear which application paragraphs apply to which requirement paragraphs.

Consequently, we urge GAO to make revisions in two specific ways:

1. Make it abundantly clear that the standards are not to be viewed in isolation without the appropriate application guidance. This could be achieved by adding additional discussion around this issue, including a further declaration in paragraph 1.24 that the application and other explanatory paragraphs are an integral part of their related requirements, and the auditor is required to read and understand the entire text of the standard to meet the requirements.
2. Include references in the requirement paragraphs to the related application guidance paragraphs.

Question 2: In chapter 3 (“Ethics, Independence, and Professional Judgment”), additional requirements and guidance are provided concerning the provision of nonaudit services to audited entities, including further explanation of the responsibility to ensure that management of the audited entity possesses the appropriate skills, knowledge, and experience to oversee the nonaudit service and expanding discussion of nonaudit services that should be considered threats or impairments to an external auditor’s independence. (various paras. 3.67 through 3.101)

Please comment on whether the revisions related to nonaudit services sufficiently and clearly explain what is required and prohibited under GAGAS.

Overall, we believe the revisions to nonaudit services sufficiently, and in most cases, clearly explain what is required and prohibited under GAGAS. However, we do offer the following comments and suggested changes:

1. Why the example provided in paragraph 3.25 regarding civil service statutes that permit staff members to seek employment with audited entities would not permit independence in accordance with GAGAS creates questions. Even absent such statutes, staff members could seek employment with an audited entity and, therefore, necessitate mitigation of the resulting independence impairment. Therefore, we suggest the example be expanded or clarified so that

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the root circumstance of audit staff seeking employment with current auditees is understood to be the issue.

2. Paragraph 3.71 could be clarified as to how management could have a responsible individual with sufficient expertise to oversee the nonaudit service and be capable of detecting a material error, omission, or misstatement but, at the same time, not have the expertise to perform or re-perform the service. It is our opinion that even the most GAAP-knowledgeable person cannot catch all material departures by simply reading financial statements. The level of expertise described needs to be revised, or at least clarified, so that auditors make reasonable and appropriate decisions regarding the requirements.
3. The purpose for addressing certain specific services in paragraph 3.88 separate from the services described in paragraph 3.89 is not clear. If the intent is to list services in paragraph 3.88 that create threats that are so significant that no safeguards could reduce them to an acceptable level, we suggest this be conveyed using language similar to that used in paragraphs 3.69 or 3.93.

Question 3: In chapter 4 (“Competence and Continuing Professional Education”), GAGAS discusses the levels of proficiency required for the roles on an engagement as well as a description of the tasks generally expected to be performed by auditors in these roles. (paras. 4.09 through 4.10)

Do these roles and descriptions clarify the competence required of auditors conducting engagements in accordance with GAGAS? Is the level of proficiency expected for each of these roles clear?

Our initial reaction to the inclusion of paragraphs 4.09 and 4.10 is that we wonder why the discussion of roles needs to be described in such detail. Paragraph 4.10 explanation of the three “roles” appears to be too prescriptive; doesn’t consider that descriptions and responsibilities differ among organizations; doesn’t recognize that individuals might have responsibilities that contain elements of two roles during an engagement, or different roles in separate engagements; and doesn’t recognize that some individuals in higher positions don’t have some or many of the tasks detailed in the draft.

It appears that the reason for having paragraph 4.10 is to describe the rather basic requirements of paragraph 4.02 and 4.03 – to properly staff audit engagements. We suggest that GAO either expand the discussion in paragraph 4.10 to address these variations in roles that actually occur in practice, or more simply, replace the detail in paragraph 4.10 with a general explanation about staffing engagements with the right individuals and aggregate team, including acknowledgement that this will be subjective and variant.

Question 4: Chapter 4 (“Competence and Continuing Professional Education”) includes a requirement for auditors to complete at least 4 hours of continuing professional education (CPE) in GAGAS topics (“GAGAS Qualification”). This 4-hour requirement is a subset of the 24-hour CPE requirement and needs to be completed each time a GAGAS revision is issued. Application guidance provides examples of the types of topics that would qualify as GAGAS topics. (paragraphs 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.

In requirement paragraphs 4.15 through 4.17 and application paragraph 4.23, it is not specifically clear what topics should be addressed in the CPE curriculum for either original GAGAS Qualification or updating it. We suggest GAO revise these paragraphs to help clarify the following, either in the requirement paragraphs or the application guidance:

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1. Paragraphs 4.15—We do not think it is clear whether the 4 hours of CPE on relevant GAGAS topics should include all the topics listed in application paragraph 4.23 regardless of the types of engagements an auditor may perform, or if a subset of the topics should be selected that directly relate to the types of engagements the auditor may perform, such as financial or performance audits. We do not believe auditors should be required to include all the bulleted topics in paragraph 4.23 if those topics are not relevant to the specific auditor. We request that GAO provide guidance to clearly understand this issue.
2. Paragraph 4.17—We do not think it is clear whether the 4 hours of CPE for updating GAGAS Qualification should address only topics related to any GAGAS revisions or whether or it should include all of the topics listed in application paragraph 4.23. We believe any updating GAGAS Qualification class(es) should only be required to address changes. Further, given that premise, we are concerned that some updating classes in forthcoming years may not have 4 hours of new topics to cover. We ask the GAO to reconsider the 4-hour requirement with respect to the updating GAGAS Qualification requirement.
3. Paragraph 4.23—We believe there is confusion about whether the topics in this paragraph were intended to be limited to Yellow Book content, or whether instruction about how audit organizations are to specifically implement Yellow Book content would also apply to the GAGAS Qualification. We believe training on the implementation of the standards should qualify. If GAO agrees that implementation of the standards does qualify, we are unsure what additional topics could be suggested as the list in this paragraph seems to mirror the broad categories of the proposed Yellow Book.

Question 5: The content from the GAGAS guidance document on CPE (GAO-05-568G) is largely incorporated into chapter 4. We plan to retire the guidance document when the new GAGAS is issued. (paragraphs 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?

Generally, we believe the provisions of GAO-056-568G have been appropriately incorporated into the exposure draft. Incorporating this guidance into the Yellow Book helps to combine similar, relevant information into a single source, making it easier for the user to find.

However, we do offer the following suggestions:

1. Paragraph 33 of the CPE guidance document (which is also supported in current GAGAS 3.78) should be included in the GAGAS revision, to clarify that meeting CPE requirements is primarily the responsibility of individual auditors.
2. Paragraph 18.a. of the CPE guidance document states, “The 24-hour requirement calls for auditors to obtain at least 24 hours of CPE in subjects and topics directly related to the government environment, government auditing, or the specific or unique environment in which the audited entity operates.” We note that “the government environment” is not included in proposed paragraph 4.24. We believe topics previously identified in 18.a., relating to the government environment, should qualify for the 24-hour requirement because they are considered essential to gaining an understanding of a government and its environment sufficient to plan and perform an audit. If the proposed 4.24.i. is intended to encompass these topics, then we suggest GAO make this clear in the document.
3. Paragraph 4.43 of the ED discusses programs and activities that do not qualify for CPE. We suggest paragraph 4.43.b. be revised to include footnote 8 from the CPE guidance document: “unless deemed necessary as a ‘refresher’ course...” We believe this would be helpful since many organizations do seem to support refresher courses.

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4. For clarification, add Specialists to the list in “Application Guidance: Exemptions and Exceptions” (page 43 of ED) noting that they are not required to meet the CPE requirements, and reference paragraphs 4.05 and 4.12 – 4.14. This was formerly noted in paragraph 8.b. of the CPE guidance document.
5. Add the following to paragraph 4.33, from paragraph 27 of the CPE guidance document – “At conferences and training classes where the length of individual presentations or sessions are other than 50 minutes, the sum of the presentations or sessions should be considered as one total program. When the total minutes of a presentation are more than 50, but not equally divisible by 50, the CPE hours should be rounded down to the nearest one-half hour.” In the current ED, we cannot tell if this is no longer allowed, or assumed to be allowed. Please clarify.
6. Add the following to Chapter 4, from paragraph 25 of the CPE guidance document – “Individual auditors who are members of professional organizations or who are licensed professionals, such as certified public accountants or lawyers, are cautioned that the GAGAS CPE requirements, while similar in many respects to those of professional organizations and of licensing bodies, may not be identical. Some subjects and topics may be acceptable to state licensing bodies or professional organizations, but may not qualify as CPE under GAGAS. Conversely, some CPE that qualifies for GAGAS may not qualify for state licensing bodies or professional organizations. Individuals should carefully consider the relevant professional organizations or licensing body requirements to ensure that they are also meeting other relevant CPE requirements.”
7. Add the following to Chapter 4, from paragraph 37 of the CPE guidance document – “All CPE records should be maintained for an appropriate period of time to satisfy any legal and administrative requirements, including peer review.”

Question 6: In chapter 5 (“Quality Control and Peer Review”), the sections on quality control and external peer review are expanded to harmonize with other standards and promote consistency in practice across the range of GAGAS auditors.

Are the changes to the quality control and external peer review sections appropriate and reasonable?

We generally believe the changes to the quality control and external peer review sections are appropriate and reasonable. However, we suggest GAO consider the following items for additional clarification:

1. In paragraph 5.09, we believe clarification is needed on whether the requirement is speaking to an overall independence statement; that is, audit personnel would need to document any type of independence impairment, or whether audit personnel simply need to sign a statement saying I will/did comply with the office's policies and procedures related to independence, or both.
2. Paragraph 5.21 of the revision requires that audit work and documentation of less experienced team members is to be reviewed by more experienced team members. This requirement makes no allowance for the proficiency of the audit team members. We believe that in certain situations it may be appropriate for a less experienced team member to review the work of a more experienced team member because the less experienced team member is more proficient than the more experienced team member. Also, the supervision provisions in paragraphs 8.85-8.87 are more general and may be viewed as inconsistent with paragraph 5.21.
3. The requirement in paragraph 5.23 would be better placed as a part of the Human Resources requirements included as paragraph 5.14 since the monitoring of CPE for auditors is generally completed outside of the audit process.
4. We believe clarification is needed in paragraph 5.24 as to whether this section is referring to internal or external contentious issues, or both. Also, requiring documentation of the consideration of resource availability, agreements on the nature and scope, and conclusions of

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these many and varied consultations seems unnecessary. If the purpose of this requirement is to ensure unusual, non-routine, or exceptional circumstances affecting an audit are properly documented, then a generalized statement to that effect should be the requirement. The current language may be more suitable as application guidance, but even then, some consideration should be given to the depth and complexity of the documentation expectations it establishes.

5. For paragraph 5.85, we would suggest the addition of an item for the written agreement that addresses the confidentiality of audit documentation.

Question 7: In chapter 5 (“Quality Control and Peer Review”), peer review requirements are categorized by requirements for (1) audit organizations affiliated with recognized organizations and (2) other audit organizations. (paragraphs 5.63 through 5.113)

Are the peer review requirements for each category of audit organization clear?

We appreciate that GAO has acknowledged NSAA’s peer review program as a “recognized organization.” We presume that all recognized organizations listed in paragraph 5.64 are there because they have robust programs that meet the minimum GAGAS peer review requirements listed in paragraphs 5.80-5.113. However, there is no requirement for recognized organizations to continue to meet these requirements. For example, the three-year interval requirement is only included for audit organizations that use “non-recognized” organizations to conduct their peer review. Is GAO’s intent to allow recognized organizations to set their own peer review interval? This should be made clear in the final standards.

In addition, there is some duplication between requirements that apply to audit organizations affiliated with recognized and non-recognized organizations. We suggest GAO create a section on requirements applicable to both. Duplication exists between paragraphs 5.70-5.74 and 5.98-5.102 (peer review report rating requirements), and paragraphs 5.75-5.79 and 5.108-5.112 (availability of the peer review report to the public).

Question 8: Chapter 7 (“Standards for Attestation Engagements and Reviews of Financial Statements”) is expanded to incorporate by reference Statement on Standards for Accounting and Review Services No. 21, section 90, Review of Financial Statements, and includes additional requirements and guidance for reviews of financial statements conducted in accordance with GAGAS. (paragraphs 7.68 through 7.80)

Please comment on the expanded requirements and application guidance.

The guidance is generally clear; however, we offer the following for consideration:

1. We note that paragraphs 7.01, 7.05, 7.68, 7.79, 7.81 and 7.90 all reference specific statements (SSAE 18 and SSARS 21) rather than SSAEs and SSARSs generally. We suggest a general reference to the applicable sets of standards to avoid confusion or obsolescence if SSAE 18 or SSARS 21 are amended, augmented or replaced with additional attestation or review standards.

Question 9: In chapter 8 (“Fieldwork Standards for Performance Audits”), internal control considerations are expanded to reference the 2014 Standards for Internal Control in the Federal Government and Internal Control – Integrated Framework. (paragraphs 8.37 through 8.65)

Do these sections clearly describe ways auditors assess internal control on performance audits?

Overall, the standards on internal controls are clear; however, they seem a bit prescriptive. GAO should consider allowing the auditor to use professional judgment to determine how to approach compliance with the standards related to internal control.

We also offer the following points for GAO’s consideration:

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1. While we realize that GAO is trying to align the internal control requirements with the "*Integrated Framework*," this raised some areas of concern. For example, the guidance in paragraph 8.38 discusses assessing the significance of internal control to the audit objectives. As factors to be considered, this paragraph mentions the "three categories of entity objectives" and the "five components of internal control". However, there is no further explanation of these categories/components or even a listing of what they are. While reference to the *Integrated Framework* (including a citation of the GAO publication number) is made, further guidance and explanation in GAGAS might be helpful. For example, we suggest referencing paragraph 1.23 for the definition of the "three categories of entity objectives" so as not to cause confusion with how these categories are defined in COSO or the Green Book.
2. Guidance in paragraph 8.39 states that the significance of internal control may be assessed at various levels (first assessed at an overall level and, if significant, then assessed for the five components of internal control). Similarly, paragraph 8.45 discusses gaining an understanding of the five components of internal control at the entity-level. While these paragraphs are just guidance and say "may," we are concerned that this guidance may create an expectation for a detailed consideration of internal controls at the component level that we do not believe is warranted. We believe that assessment at the component level is an option, but not the only way to meet the requirement. GAO should make this clear.
3. We suggest paragraph 8.46 be edited to reinforce the scope of control understanding: "Obtaining an understanding of internal control assists auditors in identifying an audited entity's key controls relevant to audit objectives..."
4. For paragraph 8.47, we believe the requirement or application guidance needs to be clarified that the auditor is not always required to conclude on the entity's operating effectiveness of internal control. We understand auditors are not precluded from doing so as long as sufficient appropriate audit evidence to conclude has been obtained. We believe the paragraph is saying if internal controls are significant to the subject matter, the auditor should test for the relevant internal controls' operating effectiveness. However, if internal control was not one of the audit objectives, we would not need to test operating effectiveness in determining our conclusion about the subject matter. Conversely, if internal control was one of the audit objectives, we would be concluding on internal controls effectiveness. We suggest GAO explicitly enhance their discussion of this matter so that the appropriate amount of internal control work is done during performance audits.

In addition, paragraph 8.47 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. For example, GAO could clarify in paragraph 8.47 that the degree to which assessments, design and implementation, and operating effectiveness are assessed/evaluated depends on the risk, significance and subject matter of the audit objectives.

5. In paragraph 8.51, GAO should consider adding guidance to indicate that if the design of controls is found to be deficient, there would be no reason for auditors to test the implementation or operational effectiveness of internal controls. This idea is similar to requirements for audits of federal grant programs in 2 CFR 200.514(c)(4).

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Comments by Paragraph**

Below is a schedule of comments that describes our concerns and suggestions for improvements on a variety of issues not covered in GAO's list of questions. We believe these comments should be considered as GAO finalizes the standards.

Para.	Comment
Gen	<p>There were several instances in which examples/illustrations provided by the current GAS in Appendix I, including the following, were not incorporated into the individual chapters of the ED:</p> <ul style="list-style-type: none"> i. Examples of control deficiencies (A.06) ii. Examples of abuse (A.08) iii. Indicators requirements relating to evaluating fraud risk (A.09) iv. Management's role (A1.08) v. Examples of attestation engagement objectives (A2.01) vi. Examples of program effectiveness and results audit objectives (A2.02) vii. Examples of audit objectives related to internal control (A2.03) viii. Report quality elements (A7.02) <p>Examples are always greatly appreciated and very valuable. We were disappointed to see that these were not retained in the ED. We suggest GAO find a way to incorporate this material in the proposed Yellow Book.</p>
1.02-1.03	<p>We believe the use of "equitably" is unnecessary and irrelevant compared to the other attributes because equitably as an objective could result in inefficient, ineffective, and uneconomical outcomes. We suggest removing the concept from these paragraphs.</p>
1.03	<p>This paragraph states, "As reflected in applicable laws, regulations, agreements and standards, management and officials of government programs are responsible for providing reliable, useful, and timely information for transparency and accountability of these programs and their operations. ..." While we agree that applicable laws, regulations, agreements and standards are sources of management and government officials' responsibilities, we believe there are other sources. We suggest GAO consider including additional language that acknowledges that these sources are not all inclusive.</p>
1.04	<p>To align with Green Book terminology, we believe the second sentence in this paragraph should be edited as follows, "This includes overseeing the financial reporting objective process, subject matter, or program under audit, including related internal controls."</p>
1.07	<p>We believe the second sentence in this paragraph should be edited as follows, "GAGAS contains requirements and guidance to assist auditors in objectively obtaining acquiring and evaluating sufficient, appropriate evidence and reporting the results."</p>
1.12	<p>The types of GAGAS users separates federal inspectors general and federal agency internal auditors. However, a similar separation is not provided for municipal auditors or state auditors. We suggest this paragraph address all internal auditors of governmental entities.</p>
1.18	<p>This paragraph states, "In an attestation engagement, a party other than the auditors measures or evaluates the subject matter against criteria." While technically true, we believe it would be clearer to state: "In an attestation engagement, the auditor measures or evaluates subject matter or assertions that are the responsibility of another party."</p>
1.21	<p>In paragraph 1.21 of the Performance Audits section, "prospective analyses" is included as an example of a performance audit objective. In paragraph 2.11.d. of the current Yellow Book, an additional paragraph was included to provide related guidance over prospective analyses, which was removed from the 2017 exposure draft. If "prospective analyses" is retained as an example of a performance audit objective, we believe that the related guidance should be retained as well.</p>
1.23	<p>The requirements in Chapters 1 through 5 are applicable to all GAGAS engagements (including attestation engagements or reviews of financial statements); however, the term "audit reports" is used throughout the ED. For clarity, it may be helpful to include a definition</p>

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	of the term “audit report” as a report on the results of a GAGAS engagement, whether that engagement is a financial audit, attestation engagement, review of financial statements, or performance audit (similar to the approach used in defining “audited entity”).
1.23.k	We believe the definition should be revised as follows: External audit organization – An audit organization that is not part of the audited entity that issues reports to third parties.
1.23.m	Responsible party: We note that the term responsible official, which we are required to obtain a response to findings, is described in paragraph 6.52. It is not clear if the term responsible official is intended to be the same as responsible party, or if the responsible official is someone within the responsible party. It would seem that because of the importance of paragraph 6.52, GAO should consider adding the term “responsible official” to the list of definitions.
2.03-2.04	We suggest combining these two sentences to make it easier to read and to clarify what “must” and “should” be done (since 2.04 currently contains two “must” requirements, one of which is corollary to the “should” requirement in 2.03): “In rare circumstances, auditors and audit organizations may determine it necessary to depart from a relevant presumptively mandatory requirement. In such rare circumstance, auditors must document their justification for the departure , should perform alternative procedures to achieve the intent of that requirement. If, in rare circumstances, auditors judge it necessary to depart from a relevant presumptively mandatory requirement, they must document their justification for the departure and must document how the alternative procedures performed in the circumstances were sufficient to achieve the intent of that requirement.”
2.06, fn 6	This footnote describes a link as a listing of GAGAS interpretations. The link does not take the reader to GAGAS interpretations. This should be corrected.
2.12.a	We suggest removing the reference to SSARS 21, Section 90 (i.e., end the sentence after Services), so GAGAS will not require revision due to amendments to SSARS 21.
2.13	This paragraph states: “for financial audits, attestation engagements, and reviews of financial statements, GAGAS does not incorporate the American Institute of Certified Public Accountants (AICPA) Code of Conduct by reference, but recognizes that certain CPAs may use or may be required to use the code in conjunction with GAGAS.” We believe that this wording leaves room for interpretation and suggest adding the following sentence at the end of this paragraph: “Those certain CPAs include those who are members of the AICPA, whose firms are members of the AICPA, or whose regulatory boards require the code to be followed.”
3.35-3.37	As written, the requirements in these paragraphs do not acknowledge the auditor’s consideration of significance as described in paragraph 3.28.b. or as depicted in Figure 1 at the end of Chapter 3. Threats to independence must first be assessed for significance before moving on with determining whether identified threats are at an acceptable level or identifying and applying safeguards. Based on the Independence Framework depicted in Figure 1, the auditor is only required to identify and apply safeguards to eliminate or reduce the threat to an acceptable level when a threat to independence is first determined to be significant either individually or in the aggregate.
3.54	To make this paragraph parallel with paragraph’s 3.62 description of safeguards, we suggest revising as follows: “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: ”
3.58	We suggest a header is needed to clarify where Category III ends.
3.63	We suggest GAO 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.
3.77.b	We suggest clarifying that “another auditor, not associated with the engagement , review...”
3.99	We suggest the following edit to generalize this requirement “...are material to the audited entity’s financial statements subject matter of the engagement. ”

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3.102	This paragraph states, “ <i>While insufficient documentation of an auditor’s compliance with the independence standard does not impair independence</i> , auditors should prepare appropriate documentation under the GAGAS quality control and assurance requirements.” We believe the italicized portion of the statement above is unnecessary and only serves to diminish the requirement following it. If GAO considers it important to address the consequences of failure to sufficiently comply with the requirement, we believe that information would more appropriately belong in the application guidance.
3.105	We suggest providing additional guidance that professional skepticism takes place after a careful and rigorous initial risk assessment. The “neither dishonest nor of unquestioned honesty” mindset is a neutral perspective but excludes completely trusting audit entity personnel.
4.11.a	We suggest clarifying that the criteria should be “suitable criteria.”
4.16	We strongly suggest GAO revise this paragraph to state that auditors should ensure course content includes the relevant topics and meets the 4-hour requirement rather than the current wording that states that the CPE provider should ensure this. CPE providers are not required to comply with GAGAS, so it does not seem appropriate to associate them with a “should” statement.
4.17	We believe the last sentence of this paragraph, “The audit organization should maintain documentation of each auditor’s CPE.” should be a stand-alone requirement applying to all CPE, not just the 4-hour requirement.
4.22	We believe this paragraph is unnecessary and should be eliminated. Alternatively, combine it with paragraph 4.21 and reference 4.24 and 4.25.
4.24.c	This paragraph uses outdated language. There are no general, fieldwork, or reporting standards since SSAE No. 18 was issued. We suggest generally referencing the SSAEs and SSARs.
4.30	We suggest GAO add guidance on how to determine the portion of the CPE requirement that may be exempted. We suggest the portion exempted should be somewhat commensurate with the duration of the extended absence.
4.32.j	It is not clear if technical review of courses would qualify. NASBA’s Statement on Standards for Continuing Professional Education Programs S20-03 allows for “...technical review of courses or the course materials...” to qualify for CPE hours. Please clarify.
4.33	Guidance provided in this paragraph states that CPE may be granted in as low as one-half hour increments. This guidance is not consistent with the CPE program measurement standards contained within the Statement on Standards for CPE Programs recently published jointly by the AICPA and National Association of State Boards of Accountancy. We suggest GAO consider aligning with the AICPA and NASBA’s Statement on Standards for Continuing Professional Education Programs to allow CPE for nano-learning programs (i.e., in 10-minute increments, rather than a minimum of 50 minutes with 25 minute increments thereafter). We believe consistency between the various regulatory bodies would assist practitioners in developing processes for approving and monitoring CPE.
4.38	The first sentence in this paragraph appears to be very similar to the content of paragraph 4.28. We suggest combining the paragraphs or moving the information in paragraph 4.28 immediately before paragraph 4.38.
4.44	It is not clear how CPE is determined in instances when auditors complete professional certification review courses. Is it based upon hours spent on topics relevant to the standards, or is some other method used to determine the number of hours? Please clarify.
4.48	It is not clear what documentation is required to be included as this paragraph provides examples of optional documentation. We suggest GAO consider clarifying whether there is a minimum amount of documentation required, and if so, include in a CPE documentation requirement (see previous comment on paragraph 4.17).
4.49	This paragraph inappropriately suggests that a peer review could act as an audit organization’s monitoring controls. Like an audit, external reviews provide feedback on the

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	organization's internal controls, but are not a substitute for controls. We suggest this paragraph be revised.
5.05	We suggest adding "within the organization" to the end of this sentence.
5.15	We believe the first sentence of this paragraph should be revised as follows: "...help the audit organization attract, select and retain individuals..."
5.19.b	Item b. does not seem to be an objective of the audit organization's human resources policies and procedures. Please revise.
5.22	To clarify that the audit organization may have titles other than engagement partner or director that may be assigned the responsibility for an engagement, we suggest revising this paragraph as follows: "assign responsibility for each engagement to an engagement partner, director, or equivalent , with authority..." This change should also be made in all other places that say "engagement partner."
5.23	To make this requirement appropriately firm, we suggest the following revision: "...establish quality control procedures to help ensure provide reasonable assurance that auditor..."
5.31	We suggested this paragraph be deleted as it does not appear to add relevant application guidance.
5.34	Item "e" and "f" appear to state the same thing. We suggest GAO delete one or the other.
5.53	This guidance appears to be at odds with AU-C 220 in that it would preclude "engagement quality control reviews," from being considered a monitoring activity since 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 would suggest focusing on the core concept that monitoring is not a substitute for regular quality control procedures and therefore should be conducted in addition to regular controls. This would normally require monitoring to be done either simultaneously or after application of regular quality control procedures.
5.55	We suggest including the following additional factors which may impact the nature, timing and extent of engagement inspections: <ul style="list-style-type: none"> • whether any high risk or specialized engagements are performed • nature and extent of any changes to standards or policies
5.63-5.113	It was not clear upon first read that there are three parts to the External Peer Review section. It may be helpful to have lead-in language that provides this orientation for the reader along with the specific paragraph references. We suggest the following alternative language to appear right after the External Peer Review section header: "This section provides requirements and application guidance for external peer reviews and is divided into three subsections, as follows: (1) general requirements and guidance applicable to all audit organizations (paragraphs 5.63 through 5.67), (2) requirements and guidance applicable to those audit organizations that affiliate with a recognized peer review organization or program (paragraphs 5.68 through 5.79), and (3) requirements and guidance applicable to those audit organizations that do not affiliate with a recognized peer review organization or program (paragraphs 5.80 through 5.113)." (Note: See our response to question 7 for additional suggestions.)
5.77 & 5.111	These requirements specifically reference obtaining a peer review report when seeking to enter into a contract to conduct a performance audit in accordance with GAGAS. We believe this requirement should also include financial audits and attestation engagements since audit organizations may also seek to enter into a contract to conduct a financial audit or attestation engagement in accordance with GAGAS. We suggest the following alternative language: "Because information in peer review reports may be relevant to decisions on procuring audit services, an audit organization seeking to enter into a contract to conduct an audit or attestation engagement in accordance with GAGAS should provide the following to the party contracting for such services when requested..."
5.82	We are unsure why this requirement is included only in the section pertaining to audit organizations not affiliated with recognized organizations. We believe it is also applicable to those audit organizations affiliated with a recognized organization. In addition, please see our response to Question 7.

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Ch. 6, 7, 8	The terms “waste” and “abuse” are defined in Chapters 6, 7, and 8. We suggest that these definitions be made substantially similar to the definitions in the Standards for Internal Control in the Federal Government (<i>GAO Green Book</i>) or the Internal Control - Integrated Framework.
6.05	Paragraph 6.05.b. refers to “a nongovernment audit organization that meets the organizational requirements of paragraph 6.04.” However, paragraph 6.04 does not prescribe “organizational” requirements. Furthermore, GAO is apparently addressing circumstances that have to come to its attention related to this issue; however, it is unclear how bullets b. and c. in paragraph 6.05 remedy these circumstances. Instead, it only adds confusion when looking at the introductory language and bullet a. We suggest GAO clarify what it expects in these circumstances.
6.09, 7.11, 8.25	Application paragraphs 6.09, 7.11, and 8.25 appear to be out of place. Specifically, the application guidance in these paragraphs relates to early communication of findings noted during an engagement. However, the requirement paragraphs preceding these application paragraphs appear to address communications at an engagement’s onset. Further, 8.25 is located in the section related to planning the engagement. We suggest GAO move this application guidance to follow more applicable requirement paragraphs over reporting findings and deficiencies.
6.17, 7.75, 8.75	We suggest GAO include the following statement in paragraphs 6.17, 7.75, and 8.75 to clarify that auditors are not required to perform procedures to detect waste, and for consistency with paragraphs 6.18, 7.76, and 8.76 related to abuse: “Because the determination of waste is subjective, auditors are not required to perform procedures to detect waste in financial audits/examination engagements/performance audits.”
6.33	This paragraph states in part: “...GAGAS does not require auditors to cite compliance with the AICPA standards when citing compliance with GAGAS.” It is unclear to us when this phrase would apply, because failing to cite compliance with GAAS is a GAAS violation, which in turn violates GAGAS. Please revise.
6.34	This requirement should be expanded from financial statement audits to encompass financial audits described in paragraph 1.17b(1) and 1.17b(3). Based upon a review of AICPA audit standards AU-C 805 and AU-C 935, we believe these engagements would be required to report on internal control deficiencies identified as significant deficiencies or material weaknesses, as is described in paragraph 6.42. If these engagements are also performed under GAGAS, it would be reasonable to expect that the GAGAS required report that includes these significant deficiencies and material weaknesses would also be issued.
6.38	This paragraph requires that, “If separate reports are used, the auditors should make the report on internal control and compliance available to users in the same manner as the financial audit report to which it relates.” We believe a reference to paragraph 6.66 following this sentence would be beneficial to users to reinforce the requirements regarding the manner in which reports are to be distributed and recognize the distinction between audit organizations in government entities and public accounting firms.
6.39	We suggested the following edit to avoid implying that requirements for findings in 6.35-6.58 would apply to immaterial matters not presented in the auditor’s report: “Auditors should communicate findings in writing to audited entity officials when ...”
6.43	This paragraph allows professional judgment regarding whether to report fraud that doesn’t warrant the attention of those charged with governance. This is a less-stringent standard than AU-C 240.A67, which requires communicating even inconsequential evidence that fraud exists or may exist. Is this the intent? If not, please clarify.
6.50, 7.50, 9.39	The requirement in these paragraphs is confusing, particularly as it relates to timing. Management of the audited entity will likely not distribute findings until after the audit report is issued. Please clarify when this corroboration should take place.
6.51	In the heading, remove the “to” between “Reporting” and “Findings.”
7.08, 7.70, 7.83	Paragraphs 7.08.b., 7.70.b., and 7.83.b. refer to “a nongovernment audit organization that meets the organizational requirements of paragraphs 7.07, 7.69, and 7.82,” but these referenced paragraphs do not prescribe “organizational” requirements. Furthermore, GAO is

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	apparently addressing circumstances that have come to its attention related to this issue; however, it is unclear how bullets b. and c. (in paragraphs 7.08, 7.70, and 7.83) remedy those circumstances. Instead, it only adds confusion when looking at the introductory language and bullet a. in those respective paragraphs. We suggest GAO clarify what it expects in these circumstances.
7.09	It is not clear whether the requirement only applies if an individual entity is specifically named in a law or if a category of entities is identified (for example, “air pollution control authorities”, of which there may be 9). If this is intended to clarify existing (5.04) requirements, we suggest that extant language be retained with the following edits: “In addition to the AICPA requirements for auditor communication, when performing a GAGAS examination engagement, a Auditors should communicate pertinent information that in the auditors’ professional judgment needs to be communicated to individuals contracting for or requesting the examination engagement, and to cognizant legislative committees when auditors perform the examination engagement pursuant to a law or regulation, or they conduct the work for the legislative committee that has have direct oversight of the audited entity.”
7.42	We suggest the following edit to avoid implying that requirements for findings in 7.45-58 would apply to immaterial matters not presented in the auditor’s report: “...they should communicate those findings matters in writing to audited entity officials.”
8.18	We suggest GAO include an example of what could be considered a “defined business practice” for audit criteria.
8.35	We suggest the following edit to avoid assumption that the audit organization does not have authority to initiate performance audits: “If the audit was performed based on authorization or request, then o One group of users of the audit report is government officials or other parties who have authorized or requested the audit...”
8.36.g	We suggest the following edit for readability: “...Outcomes also include a program’s unexpected and effects-, unintentional effects, or both of a program , both positive and negative.”
8.101	We suggest GAO consider adding an additional example as follows: “The audit objectives might focus on evaluating prospective information such as estimates, forecasts or projections. In such cases, auditors may analyze the methods or models used, support for key assumptions, sensitivity of estimates, and management’s rationale for rejecting any alternative models or assumptions, as well as the reliability of underlying data used. Clear disclosure of the nature and extent of estimation uncertainty will likely be necessary to place evidence in context for report users.”
9.09, 9.49, 9.50	Para. 9.09 provides that audit reports should contain the audit results, including findings, conclusions, and recommendations, <u>as appropriate</u> . Paragraph 9.49 provides that auditors should report conclusions based on the objectives and the audit findings. Also, paragraph 9.50 states that conclusions are more compelling if they lead to the auditor’s recommendations. We have interpreted that the intent of paragraphs 9.49 and 9.50 is to provide direction as to how conclusions are to be reported when they are, in fact, determined to be appropriate for inclusion in the audit report. However, we are aware that other auditors have interpreted paragraphs 9.49 and 9.50 to absolutely require conclusions for every audit objective, even when there is not an associated finding or recommendation. We suggest GAO provide clarification as to when conclusions are required to be included in audit reports.
9.24	We have concerns with the first sentence in this paragraph, specifically relating to “the concept of accountability for use of public resources and government authority,” and how it would be described in a report. Paragraph 1.02 introduces the importance of the concept of accountability for the use of public resources as it pertains to governing and paragraph 3.09 characterizes the concept as a distinguishing mark of an auditor, which GAGAS embodies. Despite the inherent connection between a GAGAS audit and public accountability, there is no specific audit requirement for an auditor to consider the concept of accountability for use of public resources and government authority while assessing audit risk associated with internal control. Therefore, we do not believe it is appropriate to require the auditor to report on these

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	<p>considerations. While we agree that these concepts are inherently supported by having good internal controls, we believe it would be difficult to verbalize in a meaningful manner how these concepts impact the auditors' assessment of risk associated with internal control. We believe this would ultimately result in boilerplate language that would not be useful to the users of the report. We suggest this concept be deleted. However, if GAO retains the sentence referenced above, we suggest additional application guidance to assist the auditor in determining the extent and manner in which to report on this requirement.</p>
9.24	<p>We suggest eliminating the last sentence: "If the written communication is separate from the audit report, auditors should refer to that written communication in the audit report." This is similar to the use of a management letter on financial audits; however, the requirement that financial audit reports make reference to this separate written communication was eliminated in the 2011 revision to the Yellow Book and it remains absent in the 2017 Yellow Book Exposure Draft. It's unclear why this requirement should remain for performance audits.</p>
9.25	<p>The proposed reporting requirement on internal controls in paragraph 9.25 is not clear and it is not understood what GAO is looking for. One view is that this paragraph requires a discussion of significant internal controls that are missing from the auditee, which may or may not also be an audit finding, and which by the way was not looked at by the auditor. Another view is that there are internal controls that existed but were not looked at by the auditor, appropriately, and this required statement is to make note that the auditor didn't look at certain internal controls and if we had, we may have found more things to report.</p> <p>Under either circumstance, we view this requirement as something of a "covering the bases" type requirement to include in the auditor's report. We are not convinced such comments are necessary in performance audit reports as scope statements or findings of significant internal controls explicitly describe what the auditor covered. We ask GAO to remove this requirement altogether. If not removed, we urge GAO to revise this requirement so it will be clear what the requirement is intending to accomplish.</p>
9.28, 9.33	<p>As written, this requirement implies that this written communication should be in the form of a finding in the audit report. However, paragraph 9.24 allows for matters that are not significant to the audit objectives but warrant the attention of those charged with governance to be communicated in the report or via separate written communication. It is unclear why separate written communication is not an option in paragraph 9.28 (and 9.33). It would be helpful to have a more consistent approach between paragraphs 9.24 and 9.28 (and also 9.33). Practically speaking, for those matters that are not significant to the audit objectives but warrant the attention of those charged with governance, auditors should have the ability to choose whether to communicate the matters in writing in the audit report or via separate written communication (e.g., a management letter). If GAO's intent is for auditors to take a different approach for paragraph 9.28 (and 9.33) than paragraph 9.24, then some explanation for the difference would be appropriate in the application guidance.</p>
9.32	<p>The language in this paragraph makes use of the word "material," which is not a concept used in the performance auditing standards. We suggest the following alternative language: "Auditors should report a matter as a finding when they conclude, based on sufficient, appropriate evidence—which may include a legal determination by a court—that instances of fraud, waste, or abuse have occurred and are significant within the context of the audit objectives."</p>
9.59	<p>Due to confidentiality issues, some audit reports omit certain sensitive information (such as IT security issues), which may include improper and illegal practices. In some cases, revising the report language to "minimize the risk that report users will draw inappropriate conclusions" as the proposed language would require may not be possible without disclosing sensitive information that could potentially bring harm to the auditee and the public. We suggest adding (in an application guidance paragraph) that in some circumstances, one way auditors may avoid misleading the reader is by disclosing that additional confidential matters have been disclosed to executive management under a separate letter.</p>

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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 and (2) allowing issuance of a follow-up performance audit with appropriate disclosure of the matter. Addressing 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).
9.65	We suggest GAO add application guidance following this paragraph to explain that auditors have no responsibility to remove old performance audits with new performance audits to address the effects of subsequent events or corrective action taken after the period covered by the report.