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James Dalkin, Director
U.S. Government Accountability Office

Mr. Dalkin;

Baker Tilly Virchow Krause, LLP (“Baker Tilly”) appreciates the opportunity to respond to the Government Auditing Standards (“GAGAS”) 2017 Exposure Draft (“ED”).

Baker Tilly is a large accounting firm with approximately 300 partners and 2,700 team members, and is ranked in the top 15 of American CPA firms. Baker Tilly performs approximately 1,000 audits of governmental entities annually. We have drawn on this experience in preparing our response for your consideration.

Paragraph 3.76 – We recommend the list of routine activities directly related to an audit include audit adjusting journal entries. Specifically, we recommend alignment with ET 1.295.010 paragraph .04 which identifies “adjusting journal entries that the member has prepared or proposed for client management consideration” as a normal part of the attest engagement that are not considered nonattest services. Under existing GAGAS, and as proposed in this ED, we have interpreted the omission of audit adjusting journal entries from the list of routine activities as an indication that they should be considered nonaudit services. However, it is our opinion that these services are a normal part of the audit engagement and would be better identified as a routine activity consistent with the AICPA ET.

Paragraph 3.79 – The combination of performance audits and agreed-upon procedure engagements with financial statement audits, examinations, and reviews makes this paragraph confusing when presented together. We recommend separating the two topics as currently presented in GAGAS.

Paragraph 3.97 – We are struggling to interpret the changes to paragraphs a and b on information technology services, which expands independence impairments to non-financial systems used in operations. Specifically, the paragraphs identify as an impairment design or modifications to source code for “other IT systems that will play a significant role in the management of an area of operations that is or will be the subject matter of an audit.” While we believe the intent is likely that the systems themselves are the subject matter of an audit, one could also interpret this to mean the area of operations in general are subject to audit. For example, if a firm is involved in designing or modifying source code for a system used in a municipal clerk’s office to post meeting agenda materials, this would not seem that it should be a violation of independence, but since the clerk’s office is a department of the government that is subject to the audit, one could interpret the ED as written to indicate an impairment. We propose the following revisions:

- a. *Designing or developing an audited entity’s financial information system or other IT systems that are a significant subject matter of an audit.*
- b. *Making other than insignificant modifications to the source code underlying an audited entity’s existing financial information system or other IT systems that are a significant subject matter of an audit.*

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Paragraph 4.15 – We believe the 4 hours GAGAS Qualification CPE requirement is excessive and will be a burden for firms to implement with very limited value. Our firm routinely builds GAGAS topics into our annual industry training sessions. For public accounting firms also performing audits in accordance with Generally Accepted Auditing Standards (“GAAS”), we have found it takes approximately one hour of CPE time to effectively explain the differences between GAAS and GAGAS. We recommend elimination of the 4 hour GAGAS Qualification CPE requirement. If a decision is made to move forward with the CPE requirements in the ED, we recommend you modify it to one hour.

Paragraphs 6.16 and 6.17 – We are struggling to understand the definition of “waste” and believe it will have significant variation in interpretation. While we believe these entire paragraphs are very subjective, the statement in 6.17 about “taxpayers not receiving reasonable value for money” definitely seems out of scope with what an auditor should be responsible for identifying. We recommend the concept of waste be eliminated from this document.

We appreciate the opportunity to provide comments on this exposure draft. Should you wish to discuss any of these comments, please contact Heather Acker at [REDACTED]

Sincerely,

BAKER TILLY VIRCHOW KRAUSE, LLP

Baker Tilly Virchow Krause, LLP