

## USDA OIG - GAGAS EXPOSURE DRAFT COMMENTS SUBMISSION

The following questions are provided to guide users in commenting on the 2017 exposure draft. We encourage you to comment on these issues and any additional issues that you note. Please associate your comments with specific references to question numbers, paragraph numbers, or both in the proposed standards and provide your rationale for any proposed changes, along with suggested revised language.

## Discussion Items

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.

Clearly marking the must/should requirements inside boxes and listing the application guidance afterwards greatly improves the organization and readability of the standards because users can easily determine what must/should be done and how or why it should be applied.

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.

More clarification regarding independence would be helpful.

Please consider expanding what would be considered a “service” for 3.47c and other threats. For example: an OIG issued an OIG Audit Guide requiring agency management to follow and use the Audit Guide as an agency internal control, this would create a management participation threat to independence. Further, if OIG actually audited the program using that OIG prepared Audit Guide and used that Audit Guide as criteria to support a finding, then that would create a self-review threat to independence.

Please consider expanding 3.51 – For example: Agency management relies entirely upon OIG to determine which accounting firms Agency management is allowed to be used to conduct audits creating a management participation threat because OIG is conducting contracting officer duties on behalf of management. Agency management is not participating this the initial audit firm selection process. In essence OIG went to a foreign country and met with their Supreme Audit Agency and obtained a list of all licensed audit firms, then reviewed various files to determine what audit firms Agency management should be allowed to select and contract with to conduct internal control related oversight activities. Agency management should be able to select from the full pool of licensees or at least go to the foreign country and conduct their own contractor assessment themselves, there is no reason for OIG to perform that management procurement function. This is similar to 3.73h – primary decision basis for making a

## USDA OIG - GAGAS EXPOSURE DRAFT COMMENTS SUBMISSION

procurement decision related to the internal control environment for which OIG later conducted an audit.

Please consider moving 3.61 to the top of the list at 3.39.

Please expand upon 3.73g – what does this specifically mean? If OIG issues guidance and that guidance states that agency management must perform certain tasks or functions, is that guidance applicable to 3.73.g or 3.47c?

Please consider expanding 3.78 to include an example unrelated to developing a system, such as a handbook or procedure manual.

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?

The roles, descriptions, and proficiency were clear.

4. Chapter 4 (“Competence and Continuing Professional Education”) includes a requirement for auditors to complete at least 4 hours of continuing professional education (CPE) in GAGAS topics (“GAGAS Qualification”). This 4-hour requirement is a subset of the 24-hour CPE requirement and needs to be completed each time a GAGAS revision is issued. Application guidance provides examples of the types of topics that would qualify as GAGAS topics. (paras. 4.15 and 4.23) Please comment on any additional topics that could be included in the 4-hour GAGAS CPE requirement or other requirements that would enhance auditor proficiency in GAGAS.

More specific requirements are better. GAGAS should include AICPA audit standards as part of the CPE requirements also because GAGAS is based upon Audit Standards Board audit and attest standards.

5. The content from the GAGAS guidance document on CPE (GAO-05-568G) is largely incorporated into chapter 4. We plan to retire the guidance document when the new GAGAS is issued. (paras. 4.26 through 4.50) Is there any additional application guidance that should be included in the GAGAS revision to enable auditors and audit organizations to effectively implement the CPE requirements given the planned retirement of the CPE guidance document?

No additional application guidance was deemed necessary.

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?

## USDA OIG - GAGAS EXPOSURE DRAFT COMMENTS SUBMISSION

The changes to the QC and PR sections are appropriate and reasonable because including them in GAGAS presents the requirements to auditors that may not have reviewed the guidance in other formats.

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

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

The peer review requirements for each category of audit organization are clear.

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

Please comment on the expanded requirements and application guidance.

The attestation engagements and review engagements should have their own separate parts because they provide the report user different levels of assurance and require the auditor to perform different levels of work.

9. In chapter 8 (“Fieldwork Standards for Performance Audits”), internal control considerations are expanded to reference the 2014 Standards for Internal Control in the Federal Government and Internal Control – Integrated Framework. (paras. 8.37 through 8.65) Do these sections clearly describe ways auditors assess internal control on performance audits?

It would be helpful to footnote certain references such as:

*8.38 Consideration of internal control in a performance audit begins with assessing the significance of internal control to the audit objectives and documenting that assessment. Some factors that may be considered when assessing the significance of internal control to the audit objectives include*

*a. the subject matter under audit, such as the program or program component under audit, including the audited entity’s objectives for the program and associated inherent risks;*

*b. the nature of findings and conclusions expected to be reported, based on the needs and interests of audit report users;*

*c. the three categories of entity objectives; and*

*d. the five components of internal control and the integration of the components.*

## USDA OIG - GAGAS EXPOSURE DRAFT COMMENTS SUBMISSION

A footnote would be helpful because some GAGAS users won't know the three categories of entity objectives are operations, reporting, and compliance.