



July 5, 2017

Mr. Gene L. Dodaro
Comptroller General of the United States
Government Accountability Office
441 G Street NW
Washington, DC

Submitted via Email - YellowBookComments@gao.gov

Re: Proposed Changes to *Government Auditing Standards*, 2017 Exposure Draft

To Whom It May Concern:

Eide Bailly LLP is pleased to respond to the *Government Auditing Standards* 2017 Exposure Draft. Eide Bailly LLP is a regional public accounting firm that serves over 550 governmental agencies of all sizes. Many of the governmental audits we conduct are performed in accordance with *Government Auditing Standards*. The following identifies our comments as it related to the GAO's exposure draft that provides changes to the framework for high-quality audits.

Specific Responses to Questions in the Comments on the 2017 Yellow Book Exposure Draft

Q. 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.

Specifically identifying the requirements by a heading and including the requirements in a box made the distinction between requirements and application guidance easy to understand. Including the application guidance within the body of the chapter provides users with additional clarification that users may have otherwise not taken the opportunity to find in the current Yellow Book. However, there could be a small risk that users will be confused by having application guidance immediately following each requirement; misinterpreting application guidance as a requirement. We believe this risk is mitigated by clearly identifying the requirements within a box.

Q.2: In chapter 3 (“Ethics, Independence, and Professional Judgement”), 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.

In practice, it is common for reliance to be placed solely on the skills, knowledge, and experience of those within the audited entity to reduce the self-review threat to an acceptable level, particularly relating to the preparation of financial statements. We believe that there should be reference within paragraphs 3.88 through 3.91 to the requirements of paragraphs 3.65 and 3.77 to emphasize the that it is not possible to rely solely on safeguards of the audited entity to reduce the threat to an acceptable level, and to provide examples of types of safeguards that could be implemented.

Q.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?

We thought that the term entry level, should be replaced or tied into a level of experience within the organization. Using the term entry level could imply that this may only be an individual with limited overall experience, and minimal years of service. However, there could be instances in which an individual would be considered more than entry level, based on their total years of experience but they may not have a supervisory role on the engagement. A potential alternative could be “supervised staff level”.

Q. 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.

We have no specific comments.

Q. 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?

We believe the guidance provided is appropriate and at a level high enough where a reasonable person can determine if the GAGAS continuing professional education requirement has been met.

Q. 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?

Overall, we believe that the changes to the Quality Control and Peer Review content are appropriate and reasonable; however we did note the following items for additional consideration –

- Paragraph 5.25 provides documentation requirements for circumstances in which an engagement is terminated and an audit report is not issued. We believe consideration should be given as to whether there should also be a requirement to communicate with those charged with governance in such situations.
- Monitoring of Quality, Paragraph 5.47 – this explanation of “monitoring of quality” is inconsistent with that included in the AICPA Quality Control standards. Accordingly, to avoid potential confusion, we recommend that the GAO use the same definition used in the AICPA standard.
- Monitoring of Quality (paragraphs 5.42 through 5.62) – we believe clarification as to whether a firm can rely upon its peer review as its annual monitoring process in the applicable year should be included in the Application Guidance for this section.
- Complaints and Allegations (paragraphs 5.58 through 5.60) – these paragraphs are included as Application Guidance to the requirements for Monitoring of Quality; however there are no requirements related to complaints and allegations. As such, there may be confusion as to whether these paragraphs are to be interpreted as requirements.

Q. 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?

We support the approach taken to distinguish between organizations affiliated with recognized organization and others that are not. However, acknowledging that there are separate headings for the two respective categories, the lengths of these two sections are such that readers may inadvertently follow the guidance in the wrong section. Accordingly, we recommend consideration of additional methods to further separate these two sections.

Q. 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.

Overall the guidance appears appropriate and sufficiently addressed. However, we have the following additional observations –

- We believe paragraph 7.68 should reference AR-C Section 90 rather than SSARS 21. Referencing the codification would eliminate the risk of referring to standards that could become superseded.
- Paragraphs 7.69 and 7.70 make reference to auditors. We believe that reference to auditors should be change to accountants, since accountants reports are issued in review engagements.

Q. 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?

We have no additional comments. The guidance appears appropriate and sufficiently addressed.

Again, we appreciate the opportunity to comment on this proposal. We would be happy to discuss any of our comments with the individual members of the GAO. Please direct any comments or questions to Scot Phillips in the Eide Bailly National Assurance office [REDACTED].

Sincerely,



Eide Bailly LLP