



National Association of State Boards of Accountancy

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July 5, 2017

Mr. James Dalkin
Director, Financial Management and Assurance
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Via e-mail: YellowBookComments@gao.gov

Re: **GOVERNMENT AUDITING STANDARDS EXPOSURE DRAFT**

Dear Mr. Dalkin:

We appreciate the opportunity to offer comments on the *Government Auditing Standards Exposure Draft* (ED). The National Association of State Boards of Accountancy's (NASBA) mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy that regulate all certified public accountants and their firms in the United States and its territories. In furtherance of that objective, we offer the following comments on the ED.

COMMENTS

Chapter 3 –Ethics, Independence, and Professional Judgement

Application Guidance: General

On page 16, paragraph 3.21 the ED defines “independence in appearance” as “the *absence* of circumstances that would cause a reasonable and informed third party, having knowledge of the relevant information, including any safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of an audit organization or member of the engagement team had been compromised.”

The *AICPA Code of Professional Conduct*, which has been adopted by many Boards of Accountancy, defines independence in appearance as “...*the avoidance* of circumstances that would cause a reasonable and informed third party who has knowledge of all relevant information, including the safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of a firm or member of the attest engagement team is compromised.”

To prevent confusion, we recommend that definitions of independence be consistent.

Mr. James Dalkin
July 5, 2017
Page 2 of 4

Chapter 4 – Competence and Continuing Professional Education

Application Guidance: Subject Matter Categories of CPE

Page 41, paragraph 4.24 lists standards and other matters applicable to auditing or to the engagement objectives. We recommend including the following:

- (i) Government Accounting Standards Board Statements, Concepts Statements, Interpretations, and Technical Bulletins, and
- (ii) Federal Accounting Standards Advisory Board standards and guidance.

Application Guidance: Programs and Activities That Qualify for CPE

Page 44, paragraph 4.32 lists educational programs and activities which qualify for CPE. NASBA and AICPA have recently exposed for comment draft model rules for continuing professional education. Under proposed rule 6.5 – Activities qualifying for CPE credit, the sources of learning activities qualifying for CPE credit include Nano-learning programs. As these programs have been shown to be very effective in providing just-in-time learning, we would suggest the GAO consider including these as examples of educational programs and activities which qualify for CPE credits and permit the reduced hour increment for Nano-learning programs.

Also covered in the proposed draft model rules is awarding CPE credit for participation in a technical committee of an international, national or state professional association, council or member organization, or a governmental entity that supports professional services or industries that require unique and specific knowledge in accounting or tax compliance. As these groups frequently involve intensive study of selected areas, the GAO should consider awarding CPE credit for them as well if they are included in the final model rules.

Chapter 5 – Quality Control and Peer Review

Most State Boards of Accountancy mandate the peer review program in accordance with the AICPA peer review requirements for CPAs.

Thus, we recommend that GAGAS peer review requirements be developed in such a way that they do not conflict with the peer review requirements mandated by State Boards.

Chapter 6 - Standards for Financial Audits

Requirements: Licensing and Certification

Page 72, paragraph 6.4 states that “auditors engaged to conduct financial audits in the United States who do not work for a government audit organization should be licensed CPAs, persons

Mr. James Dalkin

July 5, 2017

Page 3 of 4

working for a licensed certified public accounting firm, or licensed accountants in states that have multiclass licensing systems that recognize licensed accountants other than CPAs.”

We recommend changing the phrase “persons working for a licensed certified public accounting firm” to “persons working for a licensed certified public accounting firm under the supervision of a licensed CPA.”

Requirement: Waste and Abuse

Page 75, paragraph 6.16 states: “...if auditors become aware of waste or abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives, auditors should perform audit procedures to ascertain the potential effect on the financial statements or other financial data significant to the audit objectives.” It is not always clear to auditors what is considered quantitatively or qualitatively material to the financial statements as related to waste or abuse. Due to the high degree of subjectivity, we recommend development of application guidance to provide examples that enable auditors to determine what is considered material or significant to the entity’s operations, especially as related to qualitative considerations. We also suggest including additional guidance on audit procedures related to waste and abuse.

Application Guidance: Waste and Abuse

- (i) Page 75, paragraph 6.17 states that “waste is the act of using or expending resources carelessly, extravagantly, or to no purpose.” We recommend replacing the word “extravagantly” in this section, and throughout the document, with a more quantifiable term.
- (ii) Page 75, paragraph 6.18 states that “...Because the determination of abuse is subjective, auditors are not required to perform procedures to detect abuse in financial statements.” It is not clear why a similar statement is not included in paragraph 6.17 as the determination of waste is also subjective.

Chapter 8 – Fieldwork Standards for Performance Audits

Page 116, paragraph 8.95 states: “Auditors may request that management provide written representations as to the accuracy and completeness of information provided. However, this step is not a requirement for GAGAS performance audits.”

We recommend that a representation letter should be required.

Mr. James Dalkin
July 5, 2017
Page 4 of 4

Chapter 9 – Reporting Standards for Performance Audits

Application Guidance: Reporting on Instances of Fraud, Waste, or Abuse

Page 129, paragraph 9.34 states that “whether a particular act is, in fact, fraud, waste, or abuse may have to await final determination by a court of law or other adjudicative body.”

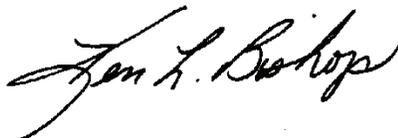
We recommend including additional guidance to enable auditors to perform a preliminary determination and appropriate procedures as applicable, instead of awaiting a court’s decision before performing necessary audit procedures.

Again, we appreciate the opportunity to comment on the Exposure Draft.

Sincerely,



Telford A. Lodden, CPA
NASBA Chair



Ken L. Bishop
NASBA President and CEO