



U.S. Government Accountability Office

441 G. Street, NW, Suite 6814

Washington, DC 20548

July 6, 2017.

From: Richard C. Culbertson

Organization: Asset Leadership Network (ALN) <http://assetleadership.net/>

Subject: Comments to Exposure Draft of the GAO Yellow Book.

On behalf of ALN I am pleased to have the opportunity to provide comments to the Exposure Draft of the GAO Yellow Book.

ALN is a non-partisan organization whose purpose is to help all types of organizations achieve strategic objectives by realizing greater value from their assets. Our membership is comprised of individuals, which collectively have hundreds of years of experience in business management within the Government and private industry. Our members have the full depth and breadth of asset management experience including responsibility for internal policy, operations, compliance, audits as well as leading, creating and vetting of international consensus standards (e.g. the ISO 55000 Asset Management and ASTM Standard E2279 - ... Guiding Principles of Property Asset Management).

Some of our activities include periodic events to promote good management of assets in partnership with the National Academies of Sciences. Within ISO 55000 there is a requirement for proper alignment of asset management activities and financial activities. Within ASTM E2279 there is the requirement for organizations to have internal controls that provide assurance. These standards align well with the GAO Yellow Book. At the top level our goals are the same – accountability, good accounting and good asset management.

We applaud the GAO and the Advisory Council on Government Auditing Standards for all their hard work in writing this exposure draft. This is very hard work, also difficult to write and vet a document that guides the auditing of expenditures, and assets of the U.S. Government.

To be helpful, we also have put in a sizable amount of thought and work into reviewing and providing suggestions to improve the GAO Yellow Book exposure draft. If you have any questions concerning our submittal please contact the undersigned.

Sincerely,

Richard C. Culbertson

Director Corporate Governance

[Redacted]

[Redacted]

## Enclosure II: Questions for Commenters and Provided Reply

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.

**Reply:** The new format seems appropriate and readability is okay. Some rearrangement and some more pertinent content should be added. Some suggestions:

- **Most importantly there needs to be a few paragraphs concerning consensus standards. Accountability includes the prudent and reasonable expenditure of appropriated money at the agency level but also at state and local the government level and arrangements with grantees and contractors.**

**In order to be prudent and reasonable, money should be spent using management and technical standards in compliance with “National Technology Transfer and Advancement Act of 1995”. “SEC. 12. STANDARDS CONFORMITY (d) UTILIZATION OF CONSENSUS TECHNICAL STANDARDS BY FEDERAL AGENCIES; REPORTS. — (1) IN GENERAL.— Except as provided in paragraph (3) of this subsection, all Federal agencies and departments shall use technical standards that are developed or adopted by voluntary consensus standards bodies, using such technical standards as a means to carry out policy objectives or activities determined by the agencies and departments.” This law is implemented in OMB Circular No. A-119, “Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities”**

**This Act requires consensus standards in lieu of unique federal standards. The use consensus standards has multiple benefits over unique federal standards – many of these unique federal standards are included in agency issued regulations. Accountability of performance includes reducing or right sizing or improving federal regulations. Part of the GAO’s ongoing charter should be the review of federal regulations – are these regulations in compliance with the National Technology Transfer and Advancement Act**

of 1995, and Executive Orders: of January 30, 2017, Presidential Executive Order on Reducing Regulation and Controlling Regulatory Costs, April 21, 2017, Presidential Executive Order on Identifying and Reducing Tax Regulatory Burdens and February 24, 2017 Presidential Executive Order on Enforcing the Regulatory Reform Agenda.

- There is no better investment of the U.S. Government than to follow through on eliminating obsolete, unneeded and inefficient regulations and adopting or participating in the generation of consensus standards.
  - Increase the terms section – probably should be its own section in some manner. Some terms are repeated within the document – such as waste and abuse as many as five times.
  - Include a paragraph or two regarding accountability, expectations of those being audited and the importance of a culture of compliance, best value for customers and the expectation of continued process improvements. There should also be some cautionary advice as to truthfulness of statements to auditors – statement must be current accurate and complete and without the intent to coerce, manipulate, mislead, or fraudulently influence the auditor. Also provide references prohibiting such wrongful acts, e.g. Sarbanes-Oxley and SECURITIES AND EXCHANGE COMMISSION, 17 CFR Part 240 regarding Improper Influence on Conduct of Audits.
  - The GAO changed its name from the Government Accounting Office to the Government Accountability Office – the name change is consistent with the more emphasis on accountability. The document appears to retain the same emphasis on accounting in the placement of the chapters. There is more potential in savings with more emphasis on accountability – particularly on personal accountability. The chapter on performance audits should come before attestations. The fact that the PCAOB reinforced the role of public accounting to just internal control over financial reporting<sup>1</sup> somewhat can leave a vacuum over other segments of internal control – effective and efficient operations and compliance with laws and regulations. The GAO should make sure that vacuum is filled with sufficient oversight and audits.
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)

<sup>1</sup> AU Section 319 Consideration of Internal Control in a Financial Statement Audit Consideration of Internal Control in a Financial Statement Audit

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

**Reply: No comment.**

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?

**Reply: Overall Yes for both questions but see suggested additions.**

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.

**Reply: These additional topics should include consensus standards such as: ASTM E2279 ---The Guiding Principles of Property Asset Management (This standard has been adopted by Departments and Agencies including DoD and GSA.) ISO 55000 Asset Management<sup>2</sup> (This international standard is probably the most important and valuable standard of ISO as “asset” has been redefined as: “Item, thing or entity that has potential or actual value to an organization --- Value can be tangible or intangible, financial or non-financial, and includes consideration of risks and liabilities. It can be positive or negative at different stages of the asset life.” “Asset management” is defined as “Coordinated activity of an organization to realize value from assets.” These are definitions that should be used in performance audits ... not attestations of internal controls over reliable reporting. Currently most value comes from intangibles, – most ISO 55000 defined intangible assets, of course are not on the books, however. ISO 9000 should be included as well, it is a very good standard and the basis of generally recognized Quality Management Systems. Accountability of good performance should be gaged by Lean Six Sigma tools, particularly for the approach to the identification of waste.**

<sup>2</sup> “Governments should also introduce standardized infrastructure asset management processes and frameworks (such as ISO 55000),” World Economic Forum -- Strategic Infrastructure Steps to Operate and Maintain Infrastructure Efficiently and Effectively [http://www3.weforum.org/docs/WEF\\_IU\\_StrategicInfrastructureSteps\\_Report\\_2014.pdf](http://www3.weforum.org/docs/WEF_IU_StrategicInfrastructureSteps_Report_2014.pdf)

- 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?

**Reply: No comment.**

- 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?

**Reply: No Comment**

- 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?

**Reply: It may be clear but inappropriate. The scoring of Pass, Pass with Deficiencies and Fail is not a good scoring technique, unless the scoring is unimportant or it is designed to protect less than optimal performers. This scoring is primarily for the benefit of those being scored. The best and almost the worst are scored the same. The best and almost the worst should be identifiable. Activities and individuals seeking excellence are harmed by this type of scoring -- think of batting averages, Olympic contests, or even rating of doctors or movies. Scoring should be used by the one being scored as an independent and objective assessment of the current state and suggested future states -- in order to improve. The approach validates such thinking as “So long as I’m not bad, I’m good. Success is right above failure and not failing is good enough and least expensive for right now and on my watch.” The scoring system should promote and incentivize the desired outcomes – good internal controls and improved value for the long term. This type of scoring does not promote transparency and accountability.**

- 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.

**Comment: Agree with the changes.**

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?

**Comment: No. The 2014 *Standards for Internal Control in the Federal Government* and *Internal Control – Integrated Framework (Green Book)* should be referenced entirely. A summary of the document eliminates valuable information. The Green book is a great self-assessment tool for total operations.**

The Green Book could have been improved in the Information and Communication section: “Overview: Management uses quality information to support the internal control system. Effective information and communication are vital for an entity to achieve its objectives. Entity management needs access to relevant and reliable communication related to internal as well as external events.” by including self-assessments by those responsible for various activities. First hand responses (assertions) by individuals at the lowest responsible level regarding their responsibilities is a valuable communication tool and self-correction approach. Simple questions such as: Have you been adequately trained for your assigned responsibilities? Provides a valuable avenue for recognition, upward communication and valuable information to use as a basis for both the responsible employee and management to take appropriate action. Auditors should look for and review these types of self-assessment processes, such guidance should be incorporated in the Yellow Book.

Chapters 8 as well as 9 do not include a ratings or scoring -- to promote optimization -- effectiveness, efficiency, transparency and accountability they must. Scores should include negative score for things that are wrong and positive scores for things that are good and determine an eventual maturity level. This process must drive to reduce negatives and strive to increase positives as well as provide situational awareness for internal management and those providing funds. The information provide is good for looking for negatives but not useful for capturing, rewarding identified best practices. Best practices are valuable and need to be promulgating to improve overall performance. Accountability includes recognition and rewards for doing good. Performance audits should be viewed as important in evaluating current status but also provide a road map for future improvement. Scoring helps management, Congress and the public to have a candid view of operational performance and how that performance compares to other organizations. With no ratings, transparency and accountability are impaired. See ASTM E2452 Standard Practice for Equipment Management Process Maturity (EMPM) Model and Capability Maturity Model Integration (CMMI) that was developed by Carnegie Mellon University.

**Major Opportunities to Improve the Exposure Draft**

	<b>Topic to Improve</b>	<b>Suggest Improvement</b>	<b>Rationale</b>
1	Needs a greater emphasis on the promotion of self-awareness, self-correction, and self-improvement and self-accountability for those being audited.	<p>The Yellow Book is useful to those auditing but also those being audited. Provide some guidance for those being audited. This could be included in each chapter.</p> <p>Promote self-awareness, self correction, self-improvement and self-accountability – focus on prevention rather than correction.</p> <p>Use concepts included in the Plain Writing Act of 2010 and Federal Plain Language Guidelines.</p>	<p>Useful Concepts:</p> <ul style="list-style-type: none"> <li>- Quality is built in rather than inspected (audited) in. (Deming)</li> <li>- People don't do what you expect but what you inspect, (Gerstner)</li> <li>- Transparency of information breeds self-correcting behavior. (Thad Allen)</li> </ul>
2	<b>The draft refers to standards but does not adequately define standards and the types of standards – specifically consensus standards where there is Federal law and OMB guidance for Government departments and agencies to adopt consensus standards. The lack of knowledge of the requirement and individual standards is a root cause and source of harm, waste and inefficiency and ineffectiveness.</b>	<b>Provide the knowledge in the use of consensus standards and audit compliance to the requirements to adopt and use consensus standards in lieu of unique federal standards -- including unique federal standards imbedded in federal regulations that apply to the public.</b>	<b>The purpose of consensus standards organizations is to gather experts in various topics and identify best practices to be used to promote knowledge, commonality, effectiveness and efficiency to benefit the common good and various communities.</b>
3	<b>The most important consensus standards should be identified but are not –</b>	<b>The guide should state these standards are assumed unless the</b>	<b>ASTM E2279 has been adopted by DoD and other Department and agencies and reinforces</b>

	<p><b>ASTM E2279 ... Guiding Principles of property Asset Management... ISO 55000 Asset management and ISO 9000 Quality Management.</b></p>	<p>agency has complied with the appropriate reasoning and reporting requirements.</p>	<p>the requirements of the Yellow Book. ISO 55000 Asset Management is an excellent standard to realize value from assets. "Asset" is redefined: "An asset is an item, thing or entity that has potential or actual value to an organization" These include to: tangible and intangible on book and off book... the management of intangible assets is important – for example, the value of the S&amp;P 500 ~85% is in intangibles.<sup>3</sup></p> <p>ISO 9000 is the international quality standard is useful for all types of organizations.</p>
<p>4</p>	<p>The terms in the terms section are not sufficient. Some terms are used in the draft as many as five times but not defined in the terms section.</p>	<p>Include terms suggested and expand upon as beneficial. Also provide references to other authoritative glossaries or dictionaries that would be help for the reader.</p>	<p>Much knowledge and understanding can be gained and referenced very efficiently with an improved terms section.</p>
<p>5</p>	<p>The pass/ fail type scoring systems are grossly inadequate but having no scoring system is worse, as with performance audits. These types of systems do not promote excellence, best value, or optimization. Pass / fail type system are appropriate for finite measurable objects but not for complex systems. Good scoring systems promote transparency, accountability, correction and improvement particularly self-correction and improvement.</p>	<p>Require scoring systems that are fair, useful, reliable, relevant, comparable, timely – consistent with FASB Concepts Statement No. 8—Conceptual Framework for Financial Reporting.</p>	<p>Scoring systems provide decision makers material information. Scoring systems motivate for better performance. Scoring systems can be the basis of reward for good performance. Scores also help investors. Scoring systems also have to be fair ... punishing individuals because of substandard performance when management has not provide sufficient resources is not fair.</p>

<sup>3</sup> Intangible Assets: They're Not What You Think They Are  
<http://ww2.cfo.com/accounting/2016/07/intangible-assets-theyre-not-think/>

<p>6</p>	<p>This draft still places more emphasis on accounting than accountability. Publications generally include the most important topics at the beginning. In this this exposure draft accounting comes before accountability.</p>	<p>Good Internal Controls of an organization – is better than good accounting by itself. Attestation audits are important but performance audits that evaluate based upon the internal controls systems as identified in the Green Book and Yellow Book in the latter chapters has more value.</p> <p>Place more importance on accountability than accounting.</p>	<p>The message from the Government Accountability Office – formerly the Government Accounting Office needs to be consistent with the current title of the GAO.</p>
<p>7</p>	<p>The draft as well as audit organization needs to require experts in efficiency and effectiveness – by using Lean Six Sigma Black Belts and above. Financial auditors are generally not trained and competent to recognize inefficiency and are not knowledgeable of the concepts and tools available to improve effectiveness and efficiency.</p>	<p>Should include Lean Six Sigma training for those conducting performance audits.</p>	<p>For performance audits – Lean Six Sigma Training is just as important as have a CPA.</p> <p>Recognizing and correcting inefficiency is an art that requires significant training and practice to be proficient.</p> <p>Good process improvement provides better products at less cost.</p>
<p>8</p>	<p>Self-assessment and personal accountability are not emphasized.</p> <p>The concept of organization accountability is unworkable without individual accountability – one of the best tools of individual accountability is a self-assessment program.</p>	<p>The draft should include a question or check list as part of internal controls – does the organization have a self-assessment program. That emphasizes the need for employees to have knowledge, understanding and compliance to requirements. For any non-compliances management is made aware and correction plan is created and acted upon per a determined schedule.</p> <p>An example of a self-</p>	<p>Regularly scheduled self assessments are a good two way communication tool to recognize problems and drive corrections and improvements.</p> <p>These types of tools provide management with substantial assurance at minimal cost and promote the desired culture.</p>

		<p><b>assessment question: I have adequate knowledge and have been trained adequately to perform my assigned duties. Yes or No? If No explain, provide a corrective action plan and time expected to be able to answer Yes.</b></p>	
9	<p>The draft does not discuss auditing business systems. Auditors should approach audits in most cases by a review of the applicable business system. The quality of the business system is directly aligned with the quality of the product or service that the business system produces.</p>	<p>The draft needs to discuss the importance of good internal business systems. If the business system is poor, not maintained and not managed well and unreliable – the products from the business system will also reflect those attributes.</p>	<p>Fixing root cause business system deficiencies is better than fixing product deficiencies.</p> <p>DoD is trying to improve contractor operations by requiring compliance with the Business Systems Rule (DFARS 252.242-7005) ... this approach appears to be working.</p>
11	<p>The document does not include hot links.</p>	<p>Install hot links – as this will primarily be an electronic document.</p>	<p>Any changes in hot links is a not substantive change and should be changed as known changes occur. Hot links adds value to document, the reader’s productivity -and minimizes misunderstanding.</p>
12	<p>There needs to be more of a mission statement for auditors that emphasizes the nature of the auditing work -- concepts such accountability, assurance, compliance, waste, fraud and abuse are reactive to past experience and tendencies of some individuals and organizations. Most try to do good but some try to do what they think they can get away with. Those in the in the latter category assault the public’s trust and it is the auditor’s mission to help stop what gets away. Those who do good should be</p>	<p>Include a mission statement in the document similar the nature of the work as provided.</p> <p>An appendix should be including for self-appointed auditors to assist in making corrections.</p>	<p>The mission needs to be more clearly defined that provides purpose.</p> <p>Those who recognize wrongful action should be provided a path to nudge or force the elimination of organizational waste, fraud and abuse.</p> <p>“Waste, Fraud and Abuse” is preferred over “Fraud, Waste and Abuse” as more losses are due to waste than fraud.</p>

	recognized for doing good.		
--	----------------------------	--	--

**Suggested Changes to the Exposure Draft**

Parag raph	As Written	Proposed changes	Rationale
		Start with a Preface and introduce the GAO with a little background --- the name, the new name, an agency of Congress, how to read and refer to the document....	This will be a standalone document and it would be helpful to the reader.
	xiii GAO-17-313SP Government Auditing Standards Exposure Draft Abbreviations		
		<a href="#">ANSI -- American National Standards Institute</a>	For performance audits, an important consensus organization
		<a href="#">ASTM -- ASTM International (Formerly American Society of Testing and Materials)</a>	For performance audits, an important consensus organization
		<a href="#">ISO --- International Organization for Standardization</a>	For performance audits, an important consensus organization
<b>1.02</b>	Management and officials entrusted with public resources are responsible for carrying out public functions	<a href="#">Individuals, m</a> Management and officials entrusted with public resources are responsible for carrying out public functions	Accountability applies to individuals either directly or indirectly.
<b>1.03</b>	<b>1.03</b> 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	<b>1.03</b> As reflected in applicable laws, regulations, agreements, and <a href="#">consensus standards, individuals,</a> management and officials of government <a href="#">related</a> programs are responsible for <a href="#">schedule, appropriated funds, performance and</a>	To better reflect current state. Consensus standards is a better word choice as it is more precise.

	<p>operations.</p>	<p><a href="#">mission while</a> providing reliable, useful, and timely information for transparency and accountability of these programs and their operations.</p>	
		<p><a href="#">These include:</a>  <a href="#">a. Sarbanes-Oxley Act of 2002 (Pub. L. No. 107-204) for a discussion of issuers (generally, publicly traded companies with a reporting obligation under the Securities Exchange Act of 1934 15 U.S. Code § 7262 - Management assessment of internal controls Section 404(b) of Sarbanes-Oxley Act of 2002</a>  <a href="#">b. 15 U.S. Code § 78m- Periodical and other reports</a>  <a href="#">c. SECURITIES AND EXCHANGE COMMISSION 17 CFR Part 240 Improper Influence on Conduct of Audits</a>  <a href="#">d. Federal Acquisition Regulations (FAR) Part 1.102 -- Statement of Guiding Principles for the Federal Acquisition System.</a>  <a href="#">e. ASTM E2279 Standard Practice for Establishing the Guiding Principles of Property Asset Management</a>  <a href="#">f. ASTM E3015 – 15 Standard Guide for Management of Customer-Owned Property Assets in Possession of Supplier, Contractor or</a></p>	<p>The references are important and instructive to those being audited as well as to those auditing. With this type of knowledge individuals and organizations tend to become more accountable.</p>

		<p><a href="#">Subcontractor</a>  g. <a href="#">ISO 55000 Asset Management Series of Standards</a>  <a href="#">ISO 9000 Quality Management Series Standards</a></p>	
	Legislators, oversight bodies, those charged with governance, and the public need to know whether (1) management	<a href="#">1.04</a> Legislators, oversight bodies	To divide one paragraph into two – readability.
<b>1.04</b>	Those charged with governance... Those charged with governance may also be part of the entity's management.	Those charged with governance... Those charged with governance <del>may be</del> <a href="#">generally also be</a> part of the entity's management.	Could also delete “generally” – those charged with governance are part of management. An understatement as written.
<b>1.06</b>	The professional standards and guidance contained in this document	The professional <a href="#">and consensus</a> standards and guidance contained <a href="#">or identified</a> in this document	To be more precise. Some standards are voluntary consensus standards some are not. For example, ISO 55001 Asset Management, a consensus standard “7.5 Information requirements. The organization shall determine its information requirements to support its assets, asset management, asset management system and the achievement of its organizational objectives. In doing this: d) the organization <b>shall</b> <a href="#">determine the requirements for alignment of financial and non-financial terminology</a> relevant to asset management throughout the organization; e) the organization <b>shall</b> ensure that there is <a href="#">consistency and traceability between the financial and technical data and other relevant non-financial data</a> , to the extent required to meet its legal and regulatory requirements while considering its stakeholders' requirements and

			organizational objectives.”  That alignment and traceability has to go both ways for the financial and nonfinancial systems and communities. Auditors – need to know the existence of consensus standards and expect to see appropriate alignment based upon non-financial consensus standards.
<b>1.10</b>	... Even if not required	<b>1.11</b> Even if not required	For readability
		<b>1.12</b> <u>There is a limitation of authority of auditors. Auditors perform work as described in GAGAS. Auditors offer opinions. Auditors do not have actual or implied authority to manage or make management decisions for those being audited.</u>	This is a good reminder – often times those audited believe auditors have managerial authority.
<b>121 c.</b>	and disposition of the entity’s resources and the quantity, quality, timeliness, and cost of services the entity produces and delivers.	and disposition of the entity’s <u>property</u> resources and the quantity, quality, timeliness, and cost of <u>internal operations</u> . services the entity produces and delivers.	A better word choice.  Various types of cost should be included.
<b>1.23</b>			The Terms Used in GAGAS needs to be expanded. Some terms included the document are defined as many as five times, e.g., abuse and waste. The official definition of term becomes very useful for those audited and those auditing.  The definitions that should be added are drawn from this document, other sources and when no suitable definition was found – one was written.
		<u>Abuse -- is behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and</u>	

		<p><u>necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate. Because the determination of abuse is subjective, auditors are not required to perform procedures to detect abuse in financial audits. Auditors may discover that abuse is indicative of fraud or noncompliance with provisions of laws, regulations, contracts, and grant agreements.</u></p>	
		<p><u>Accountability – Answering individually and collectively to the public and others for the proper, reasonable and prudent use and management of government appropriated funds, property and other resources. Accountability includes knowing individual and <a href="https://www.gao.gov/greenbook/overview">https://www.gao.gov/greenbook/overview</a> collective responsibilities that maybe included in requirements of applicable laws, regulations, standards, contracts, grants, internal policy, and established processes.</u></p>	
		<p><u>Asset – (Based upon ISO 55000 for use during performance audits.) An</u></p>	<p>The ISO 55000 definition is a positive departure from the traditional definition of asset in</p>

		<p><u>asset is an item, thing or entity that has potential or actual value to an organization. Value can be tangible or intangible, financial or non-financial, and includes consideration of risks and liabilities. It can be positive or negative at different stages of the asset life. Physical assets usually refer to equipment, inventory and properties owned by the organization. Physical assets are the opposite of intangible assets, which are non-physical assets such as leases, brands, digital assets, use rights, licenses, intellectual property rights, reputation or agreements.</u></p>	<p>GAAP. Management of assets should include items on the books as well as off books. Management of assets should be not be consistent with accounting for assets as organizational value is derived from assets as defined by ISO 55000, not necessarily from assets on a balance sheet.</p> <p>By formally managing assets based upon the concepts of ISO 55000 actual waste is reduce and actual value is increased.</p>
	<p>Auditor – An individual performing work in accordance with GAGAS (including work on audits, attestation engagements, and reviews of financial statements) regardless of job title. Therefore, individuals who may have the title auditor, information technology auditor, analyst, practitioner, evaluator, inspector, or other similar titles are considered auditors in GAGAS.</p>	<p>Auditor – An individual performing work in accordance with GAGAS (including work on <u>performance</u> audits, attestation engagements, and reviews of financial statements) regardless of job title. Therefore, individuals who may have the title auditor, information technology auditor, analyst, practitioner, evaluator, <u>ethics officer or director</u>, <u>investigator</u>, inspector, <u>property administrator</u> or other similar titles are considered auditors in GAGAS. <u>This also applies to certain individuals who support GAGAS type auditors.</u></p>	<p>For clarity.</p> <p>Property administrator is a common reference for an auditor of contract performance.</p> <p>In order to identify fraud waste and abuse that can have impact on financials other professionals provide assistance – these individual also need the protection and authority of a GAGAS auditor.</p> <p>In some cases organization structure puts individual in conflict</p>

			– such as an ethics officer reporting the legal department. Auditors are not to be advocates.
		<u>Blended audit – internal or government audits where by the audit team comprises of some auditors who focus on attestations and others focus on performance audits. Collaboration and sharing of information is expected in order to reach effective, efficient, economical and reliable audits.</u>	
		<u>Company [organization]-level controls are controls such as the following: Controls within the control environment, including tone at the top, the assignment of authority and responsibility, consistent policies and procedures, and company[organization]-wide programs, such as codes of conduct and fraud prevention, that apply to all locations and business units; Management's risk assessment process; Centralized processing and controls, including shared service environments; Controls to monitor results of operations; Controls to monitor other controls, including activities of the internal audit function, the audit committee, and self-assessment programs...<sup>4</sup></u>	
		<u>Consensus standards.</u>	

<sup>4</sup> PCAOB Auditing Standard No.2 -- An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements, See paragraphs 52, 53 54 and 126.

		<p><u>voluntary consensus standards or technical standards mean common and repeated use of rules, conditions, guidelines or characteristics for products, or related processes and production methods and related management systems. Voluntary Consensus Standards are developed or adopted by domestic and international voluntary consensus standard making bodies (e.g., International Organization for Standardization (ISO) and ASTM-International). See OMB Circular A-119.</u></p>	
		<p><u>Deficiency in internal control. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing, or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when a properly designed control does not operate as designed or when the person performing the control does not possess the necessary authority or competence to perform the</u></p>	

		<a href="#">control effectively.</a>	
		<a href="#">Ethical Principles – The public interest, integrity, objectivity, proper use of government property including information, resources and positions</a>	
		<a href="#">Fraud -- Involves obtaining something of value through willful misrepresentation. Identifying potential fraud including in billing unreasonable and unallowable cost based upon the Federal Acquisition Regulation Part 31 and 2 CFR Part 200 UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS. Whether an act is, in fact, fraud is determined through the judicial or other adjudicative system and is beyond auditors' professional responsibility.</a>	<p>Detecting potential fraud is part of the auditor's responsibility.</p> <p>The term should be updated where else the term is define in the document.</p>
		<a href="#">Independence. The applicable requirements of independence are largely predicated on four basic principles: (1) an auditor must not act as management or as an employee of the audit client, (2) an auditor must not audit his or her own work, (3) an auditor must not serve in a position of being an advocate for his or her client, and (4) an auditor must not have mutual or conflicting interests with his or her audit client. If the auditor were to</a>	

		<p><u>design or implement controls, that situation would place the auditor in a management role and result in the auditor auditing his or her own work. These requirements, however, do not preclude the auditor from making substantive recommendations as to how management may improve the design or operation of the company's internal controls as a by-product of an audit.</u></p>	
		<p><u>Independence of Appearance 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.</u></p>	
		<p><u>Independence of mind -- The state of mind that permits the conduct of an engagement without being affected by influences that compromise professional judgment, thereby allowing an individual to act with integrity and exercise objectivity and professional skepticism.</u></p>	
		<p><u>Likelihood of occurrence --: Refers to the possibility of a deficiency impacting an entity's ability to achieve its objectives.</u></p>	

		<p><u>Material. — magnitude of an omission or misstatement of accounting data that misleads financial statement readers or decision makers; materiality is judged both by relative amount and by the nature of the item.</u> <u>Discussion—For example, even a small theft by the president of a company is material. If an item is material, it should be disclosed in the body of the financial statements or footnotes (Securities and Exchange Commission Staff Accounting Bulletin). In determining whether items or amounts of cost are material or immaterial, the following quantitative and qualitative criteria should be considered where appropriate but no one criterion is necessarily determinative: (1) the absolute dollar amount involved, (2) the relationship between a cost item/occurrence and a cost objective, (3) the criticality of an item in terms of importance or use, (4) the cumulative impact of individually immaterial items, and (5) the cost of administrative processing (Federal Acquisition Regulations). (From ASTM E2279)</u></p>	
		<p><u>Material weakness -- A deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements</u></p>	

		<u>will not be prevented, or detected and corrected, on a timely basis.</u>	
		<u>Must—Is an unconditional requirements: Auditors and audit organizations must comply with an unconditional requirement in all cases where such requirement is relevant. GAGAS uses must to indicate an unconditional requirement.</u>	
		<u>Objectivity --Includes independence of mind and appearance when conducting engagements, maintaining an attitude of impartiality, having intellectual honesty, and being free of conflicts of interest.</u>	
		<u>Policy (as distinguished from practice and standard)</u>	
		<u>Program -- Is used in GAGAS to include processes, projects, studies, policies, operations, activities, entities, and functions.</u>	
		<u>Potential effect. Effect or potential effect: The effect or potential effect is the outcome or consequence resulting from the difference between the condition and the criteria. When the engagement objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the engagement, "effect" is a measure of those</u>	

		<p><u>consequences. Effect or potential effect may be used to demonstrate the need for corrective or positive action in response to identified problems, opportunities or relevant risks. Potential effect is an estimation that requires determinations be made with astute professional judgment that does not mislead decision makers. Potential estimates should be reasonable, reliable and impartial. When determining a potential effect there are elements of imagination and risk management. "To achieve efficient operations, the System [Government] must shift its focus from "risk avoidance" to one of "risk management. The cost to the taxpayer of attempting to eliminate all risk is prohibitive."<sup>5</sup> OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control applies.</u></p>	
		<p><u>Program -- Includes processes, projects, studies, policies, operations, activities, entities, and functions.</u></p>	
		<p><u>Public interest -- The collective well-being of the community of people and entities that the auditors serve. Observing integrity, objectivity, and independence in discharging their professional responsibilities helps</u></p>	

<sup>5</sup> [Federal Acquisition Regulations Part 1](#)

		<p><u>auditors serve the public interest and honor the public trust. The principle of the public interest is fundamental to the responsibilities of auditors and critical in the government environment.</u></p>	
		<p><u>Reasonable assurance - A high degree of confidence, but not absolute confidence.</u></p>	
		<p><u>Reasonable Cost -- A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of competitive business. If an initial review of the facts results in a challenge of a specific cost, the burden of proof shall be upon those who authorized such cost. (Adapted from FAR 31.201-3 -- Determining Reasonableness.)</u></p>	
		<p><u>Self-assessment – A company [organization]-level control and is an assessment made by the same individual(s) who are responsible for performing a particular internal or organization requirement or control.<sup>6</sup> While a self-assessment is not sufficient by itself adequate to be substantiation for audits, these are a great starting point to help understand the nature of the work and opinions of those doing the work. Generally if worker identifies in a self-assessment a deficiency and</u></p>	

		<u>identifies a corrective action plan to correct the deficiency -- it was probably a deficiency.</u>	
		<u>Technical standard -- Means performance based or design-specific technical specifications and related management systems practices<sup>7</sup></u>	
		<u>Significance -- Refers to the relative importance of a deficiency to achieving an entity's objective. Evaluating the significance of a deficiency involves consideration of the following factors: Magnitude of impact: Magnitude of impact refers to the likely effect that the deficiency could have on the entity achieving its objectives and is affected by factors such as the size, pace, and duration of the deficiency's impact. A deficiency may be more significant to one objective than another.</u>	
		<u>Significant deficiency A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.<sup>8</sup></u>	
		<u>Standard – Documents issued by an authority concerning a level of quality or attainment e.g., Generally Accepted Government</u>	

<sup>7</sup> U.S.C. Title 15 - COMMERCE AND TRADE

<sup>8</sup> AU Section 325 Communicating Internal Control Related Matters Identified in an Audit

		<p><u>Auditing Standards or technical<sup>9</sup> or voluntary consensus standards that are developed or adopted by voluntary consensus standards organizations and are performance-based or design-specific technical specifications and related management systems practices.</u></p>	
		<p><u>Significant deficiency. A deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.</u></p>	
		<p><u>Transparency -- In business processes and governance transparency is the figurative presence of the organization's, activities and individuals to proactively and voluntarily provide relevant, reliable, timely, honestly, and properly represent material information to those responsible for decision making, governance, as well as other interested stakeholders. Other interested stake holders may include tax payers, investors, customers, and so forth. Appropriate and strategically required transparency fosters accountability, improvement and self-correction.</u></p>	
		<p><u>Unreasonable and unallowable cost – Unreasonable cost is</u></p>	

<sup>9</sup> U.S.C. Title 15 - COMMERCE AND TRADE

		<p><u>“Unallowable cost” and means any cost that, under the provisions of any pertinent law, regulation, or contract, cannot be included in prices, cost-reimbursements, or settlements under a Government contract or grant to which it is allocable.<sup>10</sup></u></p>	
		<p><u>Voluntary consensus standards -- see “consensus standards”</u></p>	
		<p><u>Waste -- is the act of using or expending resources carelessly, extravagantly, or to no purpose. Waste involves unreasonable cost to taxpayers and not receiving reasonable value for money in connection with any government-funded activity because of an inappropriate act or omission by parties with control over or access to government resources. Importantly, waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight. Inefficiency includes elements of waste.</u></p>	
<b>2.10</b>	<p>In addition to citing GAGAS, auditors may also cite the use of other standards in their reports</p>	<p>In addition to citing GAGAS, auditors may also cite the use of other standards, <u>including technical or consensus standards</u> in their reports</p>	<p>It is important to emphasize the required use of use of appropriate consensus standards as shown in 2.12.</p>
	<p><i>Application Guidance:</i></p>	<p><i>Application Guidance:</i></p>	<p>To identify types of standards.</p>

<sup>10</sup> [Federal Acquisition Regulations Part 2 and 31.](#)

	<i>Relationship between GAGAS and Other Professional Standards</i>	<i>Relationship between GAGAS and Other Professional <u>Standards</u> <u>Technical or Consensus Standards</u></i>	
2.11	Auditors may use GAGAS in conjunction with professional standards issued by other authoritative bodies.	Auditors may use GAGAS in conjunction with professional, <u>technical or consensus</u> standards issued by other authoritative bodies.	Professional standards are generally limited to professional organizations – such as nurses and CPAs, i.e., AICPA. Technical or consensus standards includes a larger body of standards that should be used.
2.12	The relationship between GAGAS and other professional standards for financial audits, attestation engagements, and reviews of financial statements is as follows:	The relationship between GAGAS and other professional <u>auditing and accounting</u> standards for financial audits, attestation engagements, and reviews of financial statements is as follows:	
2.14	For performance audits, GAGAS does not incorporate other standards by reference, but recognizes that auditors may use or may be required to use other professional standards in conjunction with GAGAS, such as the following:	For performance audits, GAGAS does not incorporate <u>all</u> other standards by reference, but recognizes that auditors may use or may be required to use other professional <u>or technical</u> standards in conjunction with GAGAS, such as the following:  <u>a. Consensus standards issued by International Standards Organization, ASTM International and other consensus standards organizations. National Technology Transfer and Advancement Act of 1995". SEC. 12. STANDARDS CONFORMITY (d) UTILIZATION OF CONSENSUS TECHNICAL</u>	The use of appropriate consensus standards are required by law to improve performance. The continued writing, vetting and internal and external use of unique federal standards use when there are suitable and probably better consensus standards results in waste. Auditors should be aware and point out noncompliance in this area.

		<p><u>STANDARDS BY FEDERAL AGENCIES: REPORTS. — (1) IN GENERAL.—Except as provided ... all Federal agencies and departments shall use technical standards that are developed or adopted by voluntary consensus standards bodies, using such technical standards as a means to carry out policy objectives or activities determined by the agencies and departments. This is implemented in OMB Circular No. A-119, “Federal Participation in the Development and Use of Voluntary Consensus Standards and in Conformity Assessment Activities”</u></p>	
3.02	The ethical principles presented in this section provide the foundation, discipline, and structure, as well as the environment, that influence	3.02 The ethical principles presented in this section provide the foundation, discipline, and structure, as well as the <del>environment,</del> <u>environment, which</u> influence	Minor edit.
3.05	Auditors employed by government entities may also	Auditors employed by government entities <del>are</del> <u>may</u> also	Auditors are subject to ethics laws and regulation – for example FAR Part 1 c) Conduct business with integrity, fairness, and openness.
	<u>Proper Use of Government Information, Resources, and Positions</u>	<u>Proper Use of Government Information, <del>Property, Other Resources, and Positions</del></u>	Should use the term property as distinguished from other resources. Generally resources in accounting are better understood with the terms asset, and property.
3.13	This concept includes the proper handling of sensitive or classified information or	This concept includes the proper handling of sensitive or classified information or	

Formatted: Font: Not Bold

	intangible resources.	<a href="#">property</a> .	
<b>3.24</b>	A government department works with a government agency that conducts examination level attestation engagements of contractor compliance with the terms and conditions of agreements between the department and the contractor.	A government department works with a government agency that conducts examination level attestation engagements of contractor compliance with <a href="#">initial representations</a> , the terms and conditions of agreements between the department and the contractor. See FAR 52.215-8 Order of Precedence - Uniform Contract Format.	The order of precedence in Government contracts is: Schedule, Representations, Contract clauses ....  Those representations go be for contract clauses and that needs to be understood by auditors. As those representations are the basis of contractor submissions and award.
<b>3.33</b>	<b>b.</b> Self-review threat – the threat that an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services provided as part of the nonaudit services when forming a judgment significant to a GAGAS engagement.	Self-review threat – the threat that an auditor or audit organization that has provided nonaudit services will not appropriately evaluate the results of previous judgments made or services provided as part of the nonaudit services when forming a judgment significant to a GAGAS engagement. <a href="#">This includes if an auditor were to design, implement or approve controls as part of oversight, that situation would place the auditor in a management role and result in the auditor auditing his or her own work.</a> <sup>11</sup>	Self review is more commonly referred to auditing your own work – it will be help to use both term for word searches.
<b>3.5</b>	Examples of circumstances that create undue influence threats for an auditor or audit organization include existence of the following:	Examples of circumstances that create undue influence threats for an <a href="#">internal or external</a> auditor or audit organization include existence of the following:	Internal and external auditor have different types of threats. This also reinforces that threats also apply to internal auditors, which need to be recognized a dealt with.
<b>3.52 a.</b>	For both external and internal audit organizations, structural placement of the audit function within the reporting line of the	For both external and internal audit organizations, structural placement of the audit function within the	Ethics organizations that investigate suspected ethics violations need to be considered auditors with associated

<sup>11</sup> [PCAOB Auditing Standard No.2 -- An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements, See paragraph 32.](#)

	areas under audit.	reporting line of the areas under audit. <a href="#">This can include internal ethics organizations that are responsible to investigate internally alleged ethics violations. This can particularly occur in cases such as an ethics office reporting to the legal department.</a>	independence, authority and protection.
<b>3.65</b>	Depending on the nature of the engagement, auditors may be able to place limited reliance on safeguards	Depending on the nature of the engagement, <a href="#">or arrangement</a> auditors may be able to place limited reliance on safeguards	An arrangement can be something more than an engagement.
	Facts and circumstances that create threats to independence can result from events such as the start of a new engagement, assignment of new staff to an ongoing engagement, and acceptance of a nonaudit service at an audited entity.	Facts and circumstances that create threats to independence can result from events such as the start of a new engagement, <a href="#">or arrangement</a> assignment of new staff to an ongoing engagement, and acceptance of a nonaudit service at an audited entity.	
<b>3.73 c.</b>	having custody of an audited entity's assets;	<a href="#">protecting and</a> having custody of an audited entity's assets;	There can be acts beyond custody.
<b>4.08 c.</b>	standards, statutory requirements, regulations, criteria, and guidance applicable to auditing or the objectives for the engagement(s) being conducted; and	standards, <a href="#">consensus standards</a> , statutory requirements, regulations, criteria, and guidance applicable to auditing or the objectives for the engagement(s) being conducted; and	The use of consensus standards is required by law and auditors should be familiar with applicable consensus standards. If an auditor doesn't know of the requirements nor standards the related audits will probably be deficient.
<b>4.08 c.</b>	techniques, tools, and guidance related to professional expertise applicable to the work being performed.	techniques, <a href="#">e.g. Lean and Six Sigma</a> , tools, and guidance related to professional expertise applicable to the work being performed.	For performance audits – effective and efficient operations, skill sets beyond auditing and accounting knowledge are necessary. Without that knowledge and skill sets the effectiveness, efficiency and reliability of audits will be

			impaired.
4.12	Some engagements may necessitate the use of specialized techniques or methods that call for the skills of specialists. Specialists to whom this section applies include, but are not limited to, actuaries, appraisers	Some engagements may necessitate the use of specialized techniques or methods that call for the skills of specialists. Specialists to whom this section applies include, but are not limited to, <a href="#">asset/property management professionals</a> , <a href="#">Lean Six Sigma Black Belts</a> , actuaries, appraisers	Auditors cannot be experts in all professional work. They need to start understanding more about the management of assets, particularly ISO 55000 Asset Management and techniques to make operations more efficient by eliminating waste. Considering the size federal budget and the amount of assets, minor changes can result in big savings.
4.18	Standards, statutory requirements, regulations, criteria, and guidance applicable to auditing or the objectives	Standards, <a href="#">consensus standards</a> , <a href="#">Lean Six Sigma</a> , statutory requirements, regulations, criteria, and guidance applicable to auditing or the objectives	
4.23 c.	the relationship between GAGAS and other standards;	the relationship between GAGAS and other standards <a href="#">and consensus standards</a> ;	Consensus standards should be coupled with standards in all requirement and references.
	Standards, Statutory Requirements, Regulations, Criteria, and Guidance Applicable ...	Standards, <a href="#">Consensus Standards</a> , Statutory Requirements, Regulations, Criteria, and Guidance Applicable...	
4.24	Standards, statutory requirements	Standards, <a href="#">consensus standards</a> statutory requirements	
i.	regulations, statutory requirements, criteria, or guidance relevant to the specific and unique environment in which the audited entity operates;	<a href="#">consensus standards</a> , e.g. <a href="#">for property asset management ASTM E2279</a> and other national standards, regulations, statutory requirements, criteria, or guidance relevant to the specific and unique environment in which the audited entity operates;	Auditors can refer to American National Standards Institute (ANSI) for available National Standards.
j.	regulations, statutory requirements, criteria, or guidance relevant to the subject matter of the	regulations, statutory requirements, criteria, or guidance relevant to the subject matter of the	

	engagement, such as scientific, medical, environmental, educational, or any other specialized subject matter;	engagement, such as <a href="#">procurement, e.g. The Federal Acquisition Regulations 48 CFR Subpart 1.102 -- Statement of Guiding Principles for the Federal Acquisition System.</a> scientific, medical, environmental, educational, or any other specialized subject matter;	
<b>k.</b>	specialized audit methodologies or analytical techniques, such as	specialized audit methodologies or analytical techniques, such as <a href="#">Lean Six Sigma</a> .	
<b>5.01</b>	The requirements of this chapter are intended to be followed in conjunction with those of all other applicable GAGAS requirements.	The requirements of this chapter are intended to be followed in conjunction with those of all other applicable GAGAS requirements. <a href="#">This includes the use of consensus standards in whole or in part such as the international quality standard ISO 9000 as well as AU Section 230 Due Professional Care in the Performance of Work.</a> <sup>12</sup>	Evaluation of Quality systems would not be complete nor credible without understanding the international quality standard series ISO 9000.
<b>5.04</b>	peer reviews to evaluate the extent of the audit organization's compliance with its quality control policies and procedures.	peer reviews to evaluate the extent of the audit organization's compliance with its quality control policies and procedures. <a href="#">Organizations should review and adopt in whole or in part the international quality standard ISO 9000 family of standards.</a>	
<b>5.11</b>	<b>5.11</b> Written affirmation of compliance with its policies and procedures on independence from all audit organization	<b>5.11</b> Written affirmation <a href="#">or self-assessment</a> of compliance with its policies and procedures on	Self- assessments are a very good tool for management and others to affirm beliefs, and associated compliance. The self-

<sup>12</sup> <https://pcaobus.org/Standards/Auditing/Pages/AU230.aspx>

	personnel	independence from all audit organization personnel	assessment results also can help auditors identify operational issues and the continuous improvement processes.
5.23	5.23 The audit organization should establish quality control procedures to help ensure that auditors who are performing work in accordance with GAGAS meet the continuing professional education (CPE) requirements, including of the CPE completed, the determination of how a subject qualified for CPE, and any exemptions granted.	5.24 The audit organization should establish quality control procedures to help ensure that auditors who are performing work in accordance with GAGAS meet the continuing professional education (CPE) requirements, including <del>maintaining documentation</del> <u>retaining documentation</u> of the CPE completed, the determination of how a subject qualified for CPE, and any exemptions granted.	Better word choice.
5.43	5.43 The audit organization should perform monitoring procedures that enable it to assess compliance with applicable professional standards and quality control policies	5.43 The audit organization should perform monitoring procedures that enable it to assess compliance with applicable <del>professional technical or consensus standards,</del> <u>technical standards, e.g., ISO 9000 Quality Management and Systems and</u> quality control policies	To identify the expectation.
5.91	5.91 Peer review risk is the risk that the review team	5.92 Peer review risk is the risk that the review team  <u>a. Will provide or deliver professional courtesy to the organization that is being reviewed;</u>	It is important to recognize and prevent the greatest tendencies of peer reviews.
5.13 e.	If a peer review report is issued with a rating of Pass with Deficiencies or Fail, explanation of the reviewed audit organization's plan for improving quality controls and the status of the improvements.	If a peer review report is issued with a <u>composite rating of Pass with Deficiencies or Fail,</u> <del>explanation of the</del> reviewed audit organization's plan for improving quality controls	<b>Pass / Fail type rating systems provide the lowest forms of accountability and transparency and provide limited value for decision making and incentives to improve. Important complex</b>

		and the status of the improvements.	<p><b>business systems or issues that have public interest need more measurements than pass / fail. Pass / Fail system are generally not taken for seriously by decision makes – it is assumed failures are rare.</b></p> <p>A composite scoring system is better and more meaningful. Measurements however, need to be aligned to organizational objectives.</p>
6.16	Also, if auditors become aware of waste or abuse that could be significant to the entity's operations, they should consider the potential effect on the entity's operations.	Also, if auditors become aware of <u>unreasonable and unallowable cost</u> , waste or abuse that could be significant to the entity's operations, they should consider the potential effect on the entity's operations.	In grants and contract administration there is a gap between fraud, waste, and abuse. That does not meet the definitions and that is the identification of unallowable or unreasonable cost. Auditors should constantly, regardless the type of audit be aware of and recognize potential unreasonable and unallowable cost.
6.28.		<u>In contract or grant audits notify the appropriate contract or granting authorities</u>	For government contracts, the contracting officer determines allowability.
6.35	a. noncompliance with provisions of laws, regulations, contracts	a. noncompliance with provisions of laws, regulations, <u>representations</u> , contracts	Representations should be viewed as well.
6.36 .b	fraud that is material...	fraud <u>or the incurrence of unreasonable or unallowable cost</u> that is material	Makes the requirement more complete.
6.40	6.40 Internal control plays an expanded role in the government sector. Given the government's accountability for public resources, assessing internal control in a government environment may involve consideration of controls that would not be required in the private sector.	6.40 Internal control plays an expanded role in the government sector. Given the government's accountability for public resources, assessing internal control in a government environment may involve consideration of controls that would not be required in the private sector. <u>For example, the</u>	To reinforce mission performance is should be valued as part of internal controls.

		<a href="#">obligation or mission to keep Government regulations current under internal controls – effective and efficient operations is not the responsibility of the private sector.</a>	
<b>6.57</b>	Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors develop a report that is fair, complete...	Providing a draft report with findings for review and comment by responsible officials of the audited entity and others helps the auditors develop a report that is <a href="#">reliable</a> , fair, complete...	Reliability is also an important element.
<b>7.06</b>	For example, for engagements conducted in accordance with GAGAS, auditors may find it appropriate to use lower materiality levels than those used in nonGAGAS engagements because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs.	For example, for engagements conducted in accordance with GAGAS, auditors may find it appropriate to use lower <a href="#">or higher</a> materiality levels than those used in nonGAGAS engagements because of the public accountability of government entities and entities receiving government funding, various legal and regulatory requirements, and the visibility and sensitivity of government programs. <a href="#">Also higher thresholds based upon the magnitude of Government assets, for example capital asset materiality thresholds may be much higher than those in the private sector. In any event auditors should document the justification for using various materiality thresholds. Driving low materiality thresholds may have an unreasonable impact on administrative cost, which should be avoided.</a>	Materiality thresholds need to be reasonable – reasonable may be more or less between public and private sectors.
	Requirement: Investigations or Legal Proceedings	Requirement: <a href="#">Internal or External</a> Investigations <a href="#">of</a>	

		<a href="#">Ethics or Security Type Violations</a> or Legal Proceedings	
<b>7.13</b>	Auditors should inquire of management of the audited entity whether any investigations or legal proceedings significant to the engagement objectives have been initiated or are in process with respect to the period under examination, and should evaluate the effect of initiated or in process investigations or legal proceedings on the current examination	Auditors should inquire of management of the audited entity whether any <a href="#">internal or external investigations of ethics or security type violations</a> or legal proceedings significant to the engagement objectives have been initiated or are in process with respect to the period under examination, and should evaluate the effect of initiated or <del>in process</del> <a href="#">process</a> investigations or legal proceedings on the current examination	Investigation or legal proceeding is too high of a threshold. Ethics and Security keep records of significant event and this information may be very useful to add insight into the workings of the organization.
<b>7.14</b>	Laws, regulations, or policies may require auditors to report indications of certain types of fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or waste or abuse to law enforcement or	Laws, regulations, or policies may require auditors to report indications of certain types of fraud; <a href="#">unallowable cost</a> , noncompliance with provisions of laws, regulations, contracts, and grant agreements; or waste or abuse to law enforcement, <a href="#">contracting officers</a> or	Better treatment of unallowable cost.
<b>7.16</b>	...include consideration of noncompliance with provisions of contracts and grant agreements.	...include consideration of noncompliance with <a href="#">Federal Acquisition Regulations</a> , provisions of contracts, <a href="#">Uniform Administrative Requirements</a> , <a href="#">Cost Principles</a> , and <a href="#">Audit Requirements for Federal Awards</a> and <a href="#">associated</a> grant agreements.	More specific to the requirements.
<b>7.40</b>	Determining whether and how to communicate to officials of the audited entity internal control deficiencies that warrant the attention of those charged with governance, but are not considered significant deficiencies or material	Determining whether and how to communicate to officials of the audited entity internal control deficiencies that warrant the attention of those charged with governance, but are not considered significant	A more complete criterion.

	weaknesses, is a matter of professional judgment.	deficiencies or material weaknesses, is a matter of <a href="#">definitions of terms and</a> professional judgment.	
<b>7.41.b</b>	fraud that is material, either quantitatively or qualitatively, to the subject matter or an assertion about the subject matter that is significant to the engagement objectives; or	fraud <a href="#">or the incurrence of unreasonable or unallowable cost</a> that is material, either quantitatively or qualitatively, to the subject matter or an assertion about the subject matter that is significant to the engagement objectives; or	Should include unallowable cost.
<b>7.42</b>	When auditors detect potential instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements or fraud, waste, or abuse that have an effect on the subject matter or an assertion about the subject matter that are less than material but warrant the attention of those charged with governance, they should communicate those findings	When auditors detect <a href="#">suspected or</a> potential instances of noncompliance with <a href="#">applicable provisions of laws, regulations, consensus standards, provisions of</a> contracts, or grant agreements or fraud, waste, or abuse that have an effect on the <a href="#">Government or</a> subject matter or an assertion about the subject matter that are less than material but warrant the attention of those charged with governance, they should communicate those findings	Edit technically – laws do not have provisions – contracts have provisions.
<b>7.43</b>	When auditors detect any potential instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements or fraud, waste, or abuse that do not warrant the attention of those charged with governance, the auditors’ determination of whether and how to communicate such instances to audited entity officials is a matter of professional judgment.	<b>7.43</b> When auditors detect <a href="#">suspected or any reasonably</a> potential instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements or fraud, waste, or abuse that do not warrant the attention of those charged with governance, the auditors’ determination of <a href="#">whether and</a> how to communicate such instances to audited entity officials is a matter of professional judgment.	“Suspected” is a more reasonable requirement than “any potential” ...

		<a href="#">Materiality should be considered.</a>	
<b>7.44</b>	When noncompliance with provisions of laws, regulations, contracts, or grant agreements or instances of fraud, waste, or abuse have occurred, auditors may consult with authorities or legal counsel	<b>7.44</b> When noncompliance with provisions of laws, regulations, contracts, or grant agreements or instances of fraud, waste, or abuse have occurred, auditors may consult with authorities, <a href="#">e.g. contracting officer</a> , or legal counsel	The contracting officer is the authority for contracts.
<b>7.89</b>	Because GAGAS incorporates by reference the AICPA's attestation standards, GAGAS does not require auditors to cite compliance with the AICPA standards when citing compliance with GAGAS. GAGAS does not prohibit auditors from issuing a separate report conforming only to the requirements of the AICPA or other standards.	<b>7.89</b> Because GAGAS incorporates by reference the AICPA's attestation standards, GAGAS does not require auditors to cite compliance with the AICPA standards when citing compliance with GAGAS. GAGAS does not prohibit auditors from issuing a separate report conforming only to the requirements of the AICPA or other <a href="#">appropriate financial standards-standards or applicable consensus standards.</a>	Could be the Cost Accounting Standards or various consensus standards.
<b>8.14</b>	In performance audits that comply with GAGAS, auditors measure or evaluate the subject matter of the engagement and present the resulting information as part of, or accompanying, the audit report. Assertions by audited entity management with respect to the subject matter of the engagement do not affect the auditors' conclusions on that subject matter because the auditors are responsible for measuring or evaluating the subject matter. GAGAS does not require auditors to obtain management assertions with	In performance audits that comply with GAGAS, auditors measure or evaluate the subject matter of the engagement and present the resulting information as part of, or accompanying, the audit report. <a href="#">Prior to the starting the audit it is important to obtain and review representations of the audited entity as contract and other awards are largely based upon representations made prior to award. Representations may include data concerning past performance.</a>	Reporting should be consistent with FASB Concept No 8 regarding reporting.  All valid material information should be considered in the final report.

	<p>respect to the subject matter when conducting a performance audit</p>	<p><u>responsibilities, Cost Accounting Disclosure Statements adopted consensus standards, industry best practices, etc.</u>                  Assertions by audited entity management <u>during the audit</u> with respect to the subject matter of the engagement <u>may do not</u> affect the auditors' conclusions, <u>on that subject matter, because the auditors are responsible for measuring or evaluating the subject matter. GAGAS does not require auditors to obtain management assertions with respect to the subject matter when conducting a performance audit All material information acquired and validated should be considered in the final report.</u></p>	
<p><b>New</b></p>		<p><u>An entity's self-assessment program should be reviewed along with other company [organization]-level controls<sup>13</sup>. Evaluating management's assessment process can be key to maintaining an adequate internal controls and continuous improvement culture. Company-level controls may be in multiple forms: internal operations metrics, an internal audit function, an independent ethics program that includes receipt, unbiased investigation and adequate resolution and reporting to</u></p>	<p>Self-assessment reinforce the desired compliance and culture.</p>

<sup>13</sup> PCAOB Auditing Standard No.2 -- An Audit of Internal Control Over Financial Reporting Performed in Conjunction With an Audit of Financial Statements. See paragraphs 52, 53 54 and 126.

		<p><a href="#">appropriate officials, self-audit (assertion) programs<sup>14</sup> that may require responsible individuals to assess compliance with established internal controls – including effective and efficient operations, reliable reporting and compliance with applicable to laws, regulations, standards, consensus standards, contracts, internal policy and established processes.</a></p>	
		<p><a href="#">8.16 Attestation audits are relevant to performance audits. For public companies subject to PCAOB Appendix 1 of Auditing Standard No. 17, Auditing Supplemental Information Accompanying Audited Financial Statements, the auditor should request and receive Management Representations as required in Section 5. This information is probably very important in understanding performance issues of the organization and should be verified as appropriate.</a></p>	<p>The auditor should obtain results of other audits as they may provide insights into the operations of the organization.</p>
<p><b>8.16</b></p>	<p>...audited entity's systems and processes to detect inconsistencies, significant errors, or potential fraud; and auditors' access to records.</p>	<p>...audited entity's systems and processes to detect inconsistencies, significant errors, or potential fraud <a href="#">including the incurrence of unreasonable or unallowable cost</a>; and auditors' access to records.</p>	<p>Detection of unallowable cost is an important element of audit especially in contract and grant audits.</p>

		<p><u>Where laws, regulations, policy indicate an acceptable desired outcome in terms that require an employee's or management's professional judgment, such as performing a certain element of work in a "timely manner". The auditor should not require or recommend that professional judgment be replaced with some arbitrary or capricious numerical standard. Auditors are required to use professional judgment. Those being audited are also entitled to use profession judgment as well. Laws and regulations are issued based upon estimated implementation and operating cost ... changing to a bright yellow line approach may increase operating cost. Questioning poor profession judgment or deficient performance is appropriate but de facto changes in laws, regulations, contracts -- is not.</u></p>	<p>In practice there is some confusion in this area. Bright yellow line standards are convenient for audit purpose but they may unreasonably add to cost.</p>
8.18 a.	Laws and regulations applicable to the operation of the audited entity;	<p><u>Relevant laws, and regulations, consensus standards, contracts, grants applicable to the operation of the audited entity;</u></p>	
e.	technically developed standards or norms;	<p><u>technically developed standards, technical standards, consensus standards<sup>15</sup> or norms;</u></p>	<p>Better word choice as consensus standards should be included.</p>
8.24	Examples of communications regarding the objectives, scope, methodology, and timing that could impair the auditor's ability to obtain	<p>Examples of communications regarding the objectives, scope, methodology, and timing that could impair the</p>	<p>Astute professional judgment should be used to obtain an accurate condition of operation – many times are there legitimate process delays and a snapshot</p>

<sup>15</sup> U.S.C. Title 15 - COMMERCE AND TRADE

	sufficient, appropriate evidence include situations in which the auditors plan to perform unannounced cash counts or perform procedures related to indications of fraud.	auditor’s ability to obtain sufficient, appropriate evidence include situations in which the auditors plan to perform unannounced cash counts or perform procedures related to indications of fraud. <a href="#">As a general rule however, unannounced reviews may be viewed as abuse and disruptive and results may not be representative of performance.</a>	maybe misleading.
<b>8.36 c.</b>	Internal control: Internal control is a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity	Internal control: Internal control is a process effected by an entity’s oversight body, management, and other personnel that provides reasonable assurance that the objectives of an entity will be achieved. <a href="#">These should include effective and efficient operations, reliable reporting and compliance with applicable law, regulations, consensus standards, contracts, internal policy, established processes, etc.</a> Internal control comprises <a href="#">also includes</a> the plans, methods, <del>policies, and procedures</del> used to fulfill the mission, strategic plan, goals, and objectives of the entity. <a href="#">In essence internal controls include tangible and intangible infrastructure and throughput through that infrastructure.</a>	To reinforce that internal controls apply to all elements of an organization.
<b>8.36 g.</b>	Outcomes may be influenced by cultural, economic, physical, or technological factors outside the program. Auditors may use approaches drawn from other disciplines, such as program evaluation, to isolate the effects	... Outcomes may be influenced by cultural, economic, physical, or technological factors outside the program. Auditors may use approaches drawn from other disciplines, such as:	Examples reinforce the need to draw upon other disciplines.

	of the program from these other influences.	<a href="#">Lean Six Sigma Black Belts or above, property asset management that assess the practices of acquisition, use, maintenance, protection and disposition of property or</a> program evaluation, to isolate the effects of the program from these other influences. ...	
<b>8.38 d.</b>	the five components of internal control and the integration of the components.	the five components of internal control and the integration of the components <a href="#">as developed by Committee of Sponsoring Organizations of the Treadway Commission (COSO)<sup>16</sup> and -incorporated in Standards for Internal Control in the Federal Government and Internal Control – Integrated Framework (GAO Green Book) which is also to be used as a primary source for performance audits.</a>	The source of the five components are not mentioned.  COSO and the Green Book provide good information of which auditors should be familiar.
	Understanding information systems controls is important when information systems are used extensively throughout the program under audit and the fundamental business processes and related to the audit objectives	Understanding information systems controls is important when information systems are used extensively throughout the program under audit and the fundamental business processes and <a href="#">business systems</a> related to the audit objectives	Each organization has multiple business systems – DoD determined the six most significant business systems, they include: Accounting, Procurement, Earned Value, Material Management and Accounting System, Cost Estimating and Property Management. Each of these system require supporting information systems.
	Requirement Provisions of Laws, Regulations, Contracts, and Grant Agreements	Requirement <a href="#">Provisions of Applicable Laws, Regulations, Consensus Standards, Provisions of Contracts, and Grant Agreements</a>	Laws and regulations do not have provisions – contracts do.
<b>8.66</b>	Auditors should identify any	Auditors should identify any <a href="#">applicable provisions of</a>	

<sup>16</sup> <https://www.coso.org/Pages/default.aspx>

	provisions of laws, regulations, contracts,	laws, regulations, <a href="#">consensus standards and provisions</a> contracts,	
<b>8.70</b>	Auditors should assess risks of fraud occurring that are significant within the context of the audit objectives. Audit team members should discuss among the team fraud risks,	Auditors should assess risks of fraud <a href="#">or the incurrence of unreasonable or unallowable cost</a> occurring that are significant within the context of the audit objectives. Audit team members should discuss among the team fraud risks,	Both fraud and billing unallowable cost result in harm to the public.
	Assessing the risk of fraud is an ongoing process throughout the audit. When information comes to the auditors' attention indicating that potential fraud, significant within the context of the audit objectives,	Assessing the risk of fraud <a href="#">or the incurrence of unreasonable or unallowable cost</a> is an ongoing process throughout the audit. When information comes to the auditors' attention indicating that potential fraud <a href="#">or the incurrence of unreasonable or unallowable cost</a> , significant within the context of the audit objectives,	
<b>8.72</b>	Fraud involves obtaining something of value through willful misrepresentation. Whether an act is, in fact, fraud is determined through the judicial or other adjudicative system and is beyond auditors' professional responsibility.	Fraud involves obtaining something of value through willful misrepresentation. Whether an act is, in fact, fraud is determined through the judicial or other adjudicative system and is beyond auditors' professional responsibility <a href="#">except for identifying potential fraud in billing unreasonable and unallowable cost based upon the Federal Acquisition Regulation Part 31 and 2 CFR Part 200 UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS</a>	Identifying billing of unallowable cost is part of the auditor's responsibilities.
<b>8.73</b>	Auditors may obtain information through discussion with officials of the audited entity or through other means to determine the	Auditors may obtain information through discussion with officials, <a href="#">including individuals of the</a>	Auditors should try to obtain useful information where ever it may be.

	susceptibility of a program to fraud,	<a href="#">audit committee of as well as those who have submitted ethics concerns</a> -of the audited entity or through other means to determine the susceptibility of a program to fraud,	
<b>8.82</b>	The results of other auditors' work may be useful sources of information for planning and performing the audit.	The results of other auditors' work <a href="#">including self-assessment of those performing work</a> may be useful sources of information for planning and performing the audit.	First had information is fairly reliable and should be obtained.
<b>8.95</b>	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	Auditors <del>should may</del> request that management provide written representations as to the accuracy and completeness of information provided. <del>However, this step is not a requirement for GAGAS performance audits</del>	Public accounting auditor are expected request and obtain truthful material information from management. In Sarbanes Oxley lying to auditors is unlawful. It is also unlawful to lie to GGAS auditors.
<b>8,16</b>	Findings may involve deficiencies in internal control; noncompliance with provisions of laws, regulations, contracts, and grant agreements; or instances of fraud, waste, or abuse.	Findings may involve deficiencies in internal control; noncompliance with <a href="#">applicable provisions of laws, regulations, consensus standards, provisions of contracts, and grant agreements</a> ; or instances of fraud, waste, or abuse.	Correction – mentioned previously
<b>8.123</b>	Considering internal control in the context of a comprehensive internal control framework,	Considering internal control in <a href="#">various business systems and activities</a> the context of a comprehensive internal control framework	To emphasize review of various business systems.
<b>9.20</b>	Auditors should report deficiencies in internal control; noncompliance with provisions of laws, regulations, contracts, and grant agreements; and instances of fraud, waste, or abuse	Auditors should report deficiencies in internal control; noncompliance with <a href="#">applicable provisions of laws, regulations, consensus standards, and provisions of contracts, and grant agreements</a> ; and instances of fraud, waste, or abuse	As previously commented.
<b>9.41</b>	Internal audit organizations do not have a duty to report outside the audited entity	Internal audit organizations <a href="#">within publicly traded corporations -have a duty to</a>	"do not have a duty ..." This is probably the wrong message.

	unless required by law, rule, regulation, or policy.	<p><a href="#">report up to the Board of Director's Audit Committee.</a></p> <p><a href="#">For fraud of major proportions the internal auditor has some sort of duty. For example, the PCAOB has included a database that includes the CPA firm's engagement partner... if the internal control system does not function as required – it would be appropriate to inform the engagement partner of the auditing firm and perhaps the funding agency. It probably would not be appropriate to notify the press.</a></p>	<p>Modify or add the edited sentence.</p> <p>The message should not be “see something stay silent.” There are hot lines and whistleblower avenues that can be taken as well.</p>
9.51	When feasible, auditors should recommend actions to correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential	Auditors should recommend actions to <a href="#">optimize or improve operations, and</a> correct deficiencies and other findings identified during the audit and to improve programs and operations when the potential	Remove – when feasible – weak.  Getting better should be the recommendation – operating is less than optimal is mismanagement and waste...
9.51		... <a href="#">Sub-optimal performance in many cases is waste</a>	
9.59	and revise the report language as necessary to minimize the risk that report users will draw	and revise the report language as necessary to minimize the <a href="#">threat risk</a> that report users will draw	Better word choice.