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Via e-mail: YellowBookComments@gao.gov

Mr. Gene L. Dodaro
Comptroller General of the United States
United States Government Accountability Office
441 G Street
Washington, D.C. 20548

Re: *Government Auditing Standards, 2017 Exposure Draft*

Dear Mr. Dodaro,

We are pleased to provide comments on the United States Government Accountability Office's (GAO) proposal to improve and clarify the requirements under the *Government Auditing Standards* with the proposed 2017 revisions to the current requirements.

We support the GAO's efforts to update the Yellow Book to reflect the major developments in the auditing, accountability, and financial management professions and emphasize specific considerations applicable to the government environment. Our responses to the GAO's specific questions are provided in the Appendix to this letter.

We would be pleased to discuss our comments with the GAO staff. Please direct questions to Phillip Austin at [REDACTED] or Lee Klumpp at [REDACTED]

Very truly yours,

/s/ BDO USA, LLP

BDO USA, LLP



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Appendix

- 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.

We believe the proposed revised format will enable auditors to quickly identify requirements and improve the ease of use for readers. By segregating the various items into separate chapters, it provides the user with a useful and efficient resource of GAGAS.

- 2. In chapter 3 (“Ethics, Independence, and Professional Judgment”), additional requirements and guidance are provided concerning the provision of nonaudit services to audited entities, including further explanation of the responsibility to ensure that management of the audited entity possesses the appropriate skills, knowledge, and experience to oversee the nonaudit service and expanding discussion of nonaudit services that should be considered threats or impairments to an external auditor’s independence. (various paras. 3.67 through 3.101)***

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

We believe that, overall, the additional requirements and guidance help clarify the auditor’s responsibilities related to nonaudit services. However, one of the evolving areas that may need to be expressly addressed relates to cybersecurity and the new System and Organization Controls (SOC) services that can be performed under the recently issued AICPA guidance. In particular, additional guidance may be useful with respect to the nature and extent of permissible non-audit services with respect to cybersecurity engagements.

Furthermore, we suggest there could be additional clarification regarding tax services, including the preparation of the IRS Form 990 and other related state and local tax filings along with various charitable registration forms and other administrative filings, to assist in clarifying the nonaudit services that are prohibited and/or those that pose a threat to independence.

- 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)***



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Do these roles and descriptions clarify the competence required of auditors conducting engagements in accordance with GAGAS? Is the level of proficiency expected for each of these roles clear?

We agree that the additional discussion with regard to the various roles is clear in the 2017 Exposure Draft. However, we suggest providing additional clarity with regard to the level of proficiency noted for each role.

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

Please comment on any additional topics that could be included in the 4-hour GAGAS CPE requirement or other requirements that would enhance auditor proficiency in GAGAS.

We believe that this new requirement could lead to improvements in the quality of GAGAS audits. We did note an issue as follows with regard to the language in paragraphs 4.15 and 4.17. Paragraph 4.15 notes that “Auditors assigned to supervisory or partner and director roles should obtain GAGAS Qualification before completing work on their first GAGAS engagement.” We concur that this is an improvement. However, we did note that paragraph 4.17 states, “These CPE hours should be completed by the end of each auditor’s next full 2-year CPE period after the GAGAS revision is issued.” We believe that there is a need to add a clarifying statement to link the guidance in paragraphs 4.15 and 4.17 so that users understand when the 4-hour requirement must be met. Specifically, clarification is needed to understand whether the CPE requirement needs to be completed by the earlier of these two dates or some other interpretation.

In addition, we do have concerns with the ability of current CPE tracking systems used by the firms to be able to track this requirement, especially with the final document being effective upon issuance. This timeframe would give firms only a short time period to work with their vendors or the firm’s internal resources to adjust their systems to track this implementation requirement.

- 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?



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We believe that further clarification for paragraph 4.27, "Entry-level auditors who charge less than 40 hours of their time annually to engagements conducted in accordance with GAGAS may be exempted from all CPE requirements" may be necessary. Clarification is needed to know whether they are exempted under GAGAS or if this exemption is determined by the audit firm. The 2017 Exposure Draft goes on to explain this exemption at paragraph 4.29. However, we believe that additional clarity in the form of either a reference in paragraph 4.27 to paragraph 4.29 or other such additional clarity would be helpful due to the use of the word "may."

Additionally, we believe that clarification is needed for paragraph 4.37, "Articles, books, or materials written by auditors and published on subjects and topics that contribute directly to professional proficiency to conduct engagements qualify for CPE hours in the year they are published. One CPE hour may be granted for each hour devoted to writing articles, books, or materials that are published. However, CPE hours for published writings may not exceed 20 hours for any 2-year period." Clarification is needed with respect to the topics of the articles, books and materials, and the professional proficiency of the author that would satisfy this criteria. For instance, would an article written by an auditor on the topic of board governance for nonprofits when the auditor works primarily on state and local governments qualify?

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?

We believe that these changes are clear and concise, and are appropriate.

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

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

We believe that these requirements are clear.

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



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Please comment on the expanded requirement and application guidance.

We believe that the expanded requirement to incorporate by reference, Statement on Standards for Accounting and Review Services No. 21, will be useful.

- 9. In chapter 8 (“Fieldwork Standards for Performance Audits”), internal control considerations are expanded to reference the 2014 Standards for Internal Control in the Federal Government and Internal Control - Integrated Framework. (paras. 8.37 through 8.65)***

Do these sections clearly describe ways auditors assess internal control on performance audits?

We believe that the expansion to incorporate by reference the 2014 *Standards for Internal Control in the Federal Government and Internal Control - Integrated Framework*, provides clear descriptions of the requirements related to how auditors should assess internal controls for performance audits.