

From: [REDACTED]
To: [Yellow Book Comments](#)
Cc: [REDACTED]
Subject: PA DAG Comments Re: 2017 Government Auditing Standards Exposure Draft
Date: Thursday, July 06, 2017 4:36:46 PM
Attachments: [REDACTED]

Dear Mr. Dalkin:

The attached document contains the Pennsylvania Department of the Auditor General’s comments to the 2017 *Government Auditing Standards* exposure draft.

Thank you for the opportunity to provide our feedback on this exposure draft.

Respectfully,
Melissa

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GOVERNMENT AUDITING STANDARDS
APRIL 2017 EXPOSURE DRAFT

PA DEPARTMENT OF THE AUDITOR GENERAL’S REPLY TO GAO REQUEST FOR PUBLIC COMMENT

ENCLOSURE II ISSUE QUESTION	GAGAS ¶	2017 REVISION AS EXPOSED	OUR COMMENT	OUR SUGGESTION	OUR RATIONALE
2017 YB ED General Comments					
GAO Q1. Please comment on how the revised format of GAGAS affects the organization and readability of the standards.	Overall	GAO Q1. 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.	<p>0.1: Requirements and related application guidance are presented together but not specifically cross-referenced to each other. This doesn’t present a concern when there is a one-to-one ratio of requirement to application guidance. However, when multiple requirements and extensive, related application guidance are presented together, relevant and important application guidance could be overlooked.</p> <p>For example, ED 5.58-5.61 (<i>Application Guidance: Monitoring of Quality</i>) provide application guidance related to the handling of complaints and allegations of noncompliance with the audit organization’s system of quality control. However, it’s not clear which of the monitoring requirements in ED 5.42-5.46 pertain to the above referenced application guidance.</p>	0.1: To facilitate proper application of the requirements prescribed within GAGAS, GAO should consider cross-referencing the requirements and related application guidance.	0.1: Cross-referencing requirements and related application guidance facilitate the proper application of the prescribed requirements.
			0.2: ED 1.23 “Terms Used in GAGAS” includes the definition of certain terms used in the exposure draft. Of note, there are numerous terms contained in the exposure draft that should be considered for inclusion in this section. Also, some of the definitions included are inaccurate or vague.	0.2: (1) Consider creating a separate glossary section within GAGAS. (2) We identified the following terms and phrases warranting definition or revision. This listing is not comprehensive. Additions: <ul style="list-style-type: none"> • Those Charged with Governance (ED 1.04) • Nonaudit Services (ED 1.22) 	0.2: The inclusion of a comprehensive glossary section that includes complete and consistently defined terms used within GAGAS will facilitate the proper application of prescribed requirements and application guidance. Proper application contributes to audit quality, auditor compliance and, ultimately, improved external peer review results.

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				<ul style="list-style-type: none"> • Consult/Consulting (ED 4.05, 6.15, 7.17, 7.44, 7.66, 8.67, etc.) • Consultation (ED 5.24, 5.33d., 5.34c., 5.35-5.38) • Engagement Partner or Director (ED 5.22, 5.57, 5.59, 5.60, 5.61, etc.) • Member of the Engagement Team (ED 3.21, 3.47d., 3.48, 3.49a.b., 3.51a., 3.61b.) • Staff (ED 1.04, 3.03, 3.66, 4.04, 4.38, 5.19, 6.15, 7.17, 8.02, 8.29, etc.) • Professional Staff (ED 1.23h.) • Professional Judgment (ED 3.105) • Personnel (ED 3.49e, 3.50d, 3.107, 4.20, 5.02 – 5.04, 5.08 – 5.11, 5.14, 5.17 - 5.19, 5.36, etc.) • Period of Professional Engagement (ED 3.20b, 3.23, 3.79a.) • Financial Audit (ED 1.17) • Waste (ED 6.17) • Abuse (ED 6.18) • Elements of a Finding (ED 6.19, 6.22-6.25, 6.45, 6.47, 7.21, 7.24 – 7.27, 7.45, 7.47, 8.114, 8.117 – 8.121, 9.21) • Program (ED 8.08, 8.19, 8.117) <p>Revisions:</p> <ul style="list-style-type: none"> • Attestation engagement (ED 1.18, 1.23) 	

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				<ul style="list-style-type: none"> • Audit organization (ED 1.08, 1.11, 1.12, 1.13, 1.22, 1.23, 2.02, etc.) • Engaging party (ED 1.23, 3.07, 3.24, 3.80, 6.66b.) 	
Chapter 1 – Government Auditing: Foundation and Principles for the Use and Application of GAGAS					
N/A – DAG General Comments Types of GAGAS Engagements	1.17, 1.18, 1.19	<p>1.17 Financial audits provide an independent assessment of whether an entity’s reported financial information (e.g., financial condition, results, and use of resources) is presented fairly in accordance with recognized criteria. Financial audits conducted in accordance with GAGAS include financial statement audits and other related financial audits....</p> <p>1.18 Attestation engagements can cover a broad range of financial or nonfinancial objectives about the subject matter or assertion depending on the users’ needs. In an attestation engagement, a party other than the auditors measures or evaluates the subject matter against criteria. The auditors’ conclusion addresses whether the results of that measurement or evaluation are free from material misstatement. The three types of attestation engagements are as follows:...</p>	<p>1.1: ED 1.17 describes financial audits conducted in accordance with GAGAS.</p> <p>ED 1.18 generally describes attestation engagements.</p> <p>ED 1.19 generally describes reviews of financial statements.</p> <p>All of these services are to be conducted in accordance with different types of standards prescribed by the AICPA with additional standards prescribed by GAO/GAGAS. The ED makes no mention of the applicable AICPA standards to be adhered to prior to the application of the additional standards prescribed by GAGAS.</p>	<p>1.1: Consider making the following revisions to the ED paragraphs reference:</p> <ul style="list-style-type: none"> • ED 1.17 – Including language to note that financial audits are to be conducted in accordance with the <i>AICPA’s Statements on Auditing Standards (SASs)</i> and the additional requirements prescribed by GAO with a reference to ED chapter 6. • ED 1.18 – Including language to note that attestation engagements are to be conducted in accordance with the <i>AICPA’s Statements on Standards for Attestation Engagements (SSAEs)</i> and the additional requirements prescribed by GAO with a reference to ED chapter 7. • ED 1.19 – Including language to note that reviews of financial statements are to be conducted in accordance with the <i>AICPA’s</i> 	<p>1.1: Chapter 1 is a foundational chapter. As a result, outlining the types of standards to be adhered to for the different types of services covered in GAGAS (engagements and reviews) would be foundational information that an auditor should have before proceeding through the remaining chapters of the ED. In addition, this ED introduces reviews of financial statements as a type of service also covered under GAGAS. Making the distinction between when the SSAEs are applicable and the SSARs are applicable will assist with proper implementation of GAGAS as “reviews” are covered under both sets of standards but in different contexts.</p>

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		<p>1.19 A review of financial statements consists of sufficient testing as a basis for reporting whether the auditors are aware of any material modifications that should be made to financial statements in order for the financial statements to be in accordance with the applicable financial reporting framework. A review of financial statements does not include obtaining an understanding of the entity’s internal control, assessing fraud risk, or some other procedures ordinarily performed in an audit.</p>		<p><i>Statement on Standards for Accounting and Review Services (SSARs) and the additional requirements prescribed by GAO with a reference to ED chapter 7.</i></p>	
<p>N/A – DAG General Comments Types of GAGAS Engagements</p>	<p>1.18</p>	<p>1.18 Attestation engagements can cover a broad range of financial or nonfinancial objectives about the subject matter or assertion depending on the users’ needs. In an attestation engagement, a party other than the auditors measures or evaluates the subject matter against criteria. The auditors’ conclusion addresses whether the results of that measurement or evaluation are free from material misstatement. The three types of attestation engagements are as follows:....</p>	<p>1.2: ED 1.18 includes the statement, “The auditors’ conclusion addresses whether the results of that measurement or evaluation are free from material misstatement.” This statement is appropriate for examination engagements however it seems to be overstated for review and agreed-upon procedure engagements.</p>	<p>1.2: Consider removing this sentence from the ED.</p>	<p>1.2: When reporting on review engagements, auditors are stating that they aren’t aware of any material modifications. This conclusion is limited and not equal to the conclusion that the subject matter is free from material misstatement. When reporting on agree-upon procedure engagements, the auditor isn’t to provide a conclusion but instead only report on the results of the specific procedures agree-upon.</p>
<p>N/A – DAG General Comments Terms Used in GAGAS</p>	<p>1.23</p>	<p>1.23 This paragraph describes the use of the following terms in GAGAS.</p>	<p>1.3: The definitions included in ED 1.23 could be revised: for clarity, to include references to applicable AICPA standards, and to align with the content presented in the other ED chapters.</p>	<p>1.3: Consider making the following revisions.</p>	<p>1.3: Consistently, clear and comprehensively defined terms are essential to the proper application of GAGAS requirements.</p>

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		<ul style="list-style-type: none"> • Attestation engagement – An examination, review, or agreed-upon procedures engagement conducted under the GAGAS attestation standards related to subject matter or an assertion that is the responsibility of another party. • Review of financial statements – An engagement conducted under GAGAS for review of financial statements. • Audit organization – A government audit entity or a public accounting or other audit entity that performs GAGAS engagements. • Engaging party – The party requesting or requiring a GAGAS engagement. 	<ul style="list-style-type: none"> • <i>Attestation engagement</i> – definition makes reference to engagements conducted under GAGAS standards but doesn’t include reference to the applicable AICPA standards. • <i>Review of financial statements</i> – definition makes reference to engagements conducted under GAGAS standards but doesn’t include reference to the applicable AICPA standards. • <i>Audit organization</i> – the definition included in the ED uses the label “entity.” The term that follows “audit organization” is “audited entity.” To avoid potential confusion, consider revising the definition as proposed. • <i>Engaging party</i> – Our Department had to reach out to the AICPA during our implementation of SSAE No. 18 for assistance with applying the definition and related requirements specific to engaging party. When audits are mandated, the mandate may or may not make it clear the party to be considered to be the engaging party. In February 2017, the AICPA conveyed that if the mandate is silent on the engaging party that the following is additional guidance in defining that party: an agency that is responsible for 	<ul style="list-style-type: none"> • <i>Attestation engagement</i> – add references to applicable AICPA standards. • <i>Review of financial statements</i> – add references to applicable AICPA standards. • <i>Audit organization</i> – revise to read, “A government audit agency or a nongovernment audit agency, such as a public accounting firm, that conducts GAGAS engagements.” • <i>Engaging party</i> – in addition to considering the other proposed revisions related to this definition contained in this document, consider contacting the AICPA to determine if other appropriate revisions are necessary to align with the application of SSAE No. 18. 	

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			administrating a program mandated to be audited or an agency that receives the auditor’s report and is responsible for following up on the report. If there isn’t such an agency, then the legislature is in effect the engaging party. The auditor is to document the determined engaging party. If it is the legislature, then the auditor should document that it’s not viable to request the required written representations from the legislature is such circumstances.		
Chapter 2 – General Requirements for Complying with Government Auditing Standards					
N/A – DAG General Comments Complying with GAGAS	2.06	2.06 Auditors should also have an understanding of interpretations that are issued by GAO in planning and conducting GAGAS engagements. These interpretations have the same level of authority as application guidance in GAGAS. ⁶ ⁶ See http://www.gao.gov/yellowbook for a listing of related GAGAS interpretations.	2.1: The footnote does not lead specifically to GAGAS interpretations.	2.1: (<i>Requirements: Complying with GAGAS</i>) GAO should consider adding a tab on the GAGAS portion of their website specifically for interpretations and update the hyperlink to direct users to go right to that section of the website.	2.1: It is difficult to find the interpretations.
N/A – DAG General Comments Stating Compliance with GAGAS in the Audit Report	2.16	2.16 Auditors should include one of the following types of GAGAS compliance statements in reports on GAGAS engagements, as appropriate. a. Unmodified GAGAS compliance statement: Stating that the auditors conducted the engagement in accordance with GAGAS. Auditors should include an unmodified GAGAS compliance statement in the audit report when they have (1) followed unconditional and	2.2: It’s not clear whether auditors are permitted to issue a modified GAGAS compliance statement, as described in paragraph 2.16 b, in situations whereby they conclude that they have an impairment to independence under conditions that are not described in paragraphs 3.25 and 3.85. The conditions described in 3.25 and 3.85 include: statutory requirements for auditors to serve in an official role that conflicts with independence requirements and civil service statutes that permit staff members to	2.2: (<i>Requirements: Stating Compliance with GAGAS in the Audit Report</i>) GAO should consider revising paragraph 2.16 to clarify that modification of the GAGAS compliance statement is not permissible when auditors conclude that independence is impaired unless the conditions described in either paragraph 3.25 or 3.85 exist.	2.2: Without the suggested clarification, the standard could be interpreted in different ways. Because the exposure draft provides the option for a modified GAGAS compliance statement as described in paragraph 2.16 b, without language expressly forbidding the use of that type of GAGAS compliance statement (except through the exercise of professional judgment as described in paragraph 2.19), it could be interpreted that a modified

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		applicable presumptively mandatory GAGAS requirements or (2) followed unconditional requirements, documented justification for any departures from applicable presumptively mandatory requirements, and achieved the objectives of those requirements through other means.	seek employment with audited entities, and statutory or constitutional requirements to perform a nonaudit service that impairs independence. Previous communication with the GAO indicated that auditors should not issue a modified GAGAS compliance statement for an independence impairment unless the cause of the impairment is specifically mentioned in GAGAS as an impairment that will allow for a modified GAGAS compliance statement.		GAGAS compliance statement may be used in situations in which the auditor’s independence is impaired for situations not described in paragraphs 3.25 and 3.85. Paragraphs 3.25 and 3.85 could be interpreted <i>as examples</i> of conditions for which a modified compliance statement may be used rather than the only permissible conditions for which a modified GAGAS compliance statement should be used in relation to auditor independence.
Chapter 3 – Ethics, Independence, and Professional Judgment					
GAO Q2. Please comment on whether the revisions related to nonaudit services sufficiently and clearly explain what is required and prohibited under GAGAS.	Chapter 3 Various paragraphs 3.67 – 3.101	GAO Q2. In this chapter, 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)	No, see comments/suggestions associated with these paragraphs below.		
		3.73 The following activities are considered management responsibilities: See listing a. – j.	3.1: ED 3.73 The application guidance should be revised to better align with the associated requirement at ED 3.69.	3.1: ED 3.73 (<i>Application Guidance: Identifying Prohibited Nonaudit Services</i>) suggest revising to include: “The following activities are considered management responsibilities and would therefore impair	3.1: This would make it clearer that these are management activities and the items included in the listing would impair independence if performed by the auditors.

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				independence if performed for an audited entity.” Then include existing listing a. – j.	
		<p>3.80 Auditors in government sometimes provide professional services in the context of a three-party arrangement where auditors act for an engaging party (such as the governing body) to evaluate actions or information of a responsible party (i.e., management). Objectives of such services may include investigating possible fraud, reducing the risk of management override of controls, or improving governance. Provided auditors do not set direction or accept responsibility for key processes or controls, these services do not pose management participation threats. The auditors’ role is to review the responsible party’s activities on behalf of the engaging party. Similarly, auditors may provide services that represent a two-party relationship between the auditors and the public or governing body, such as estimating the fiscal impact of proposed legislation or preparing questions for hearings. There are no GAGAS requirements related to these three-party or two-party professional services arrangements.</p>	<p>3.2: Regarding exposure draft (ED) paragraph 3.80 (<i>Additional Guidance for Auditors in Government</i>) and the following excerpt: “Auditors in government sometimes provide professional services in the context of a three-party arrangement where auditors act for an engaging party (such as the governing body) to evaluate actions or information of a responsible party (i.e., management). Objectives... There are no GAGAS requirements related to these three-party or two-party professional services arrangements.” The terms <i>professional services</i>, <i>three-party arrangement</i>, <i>engaging party</i> (such as governing body) and <i>responsible party</i> are used in ED 3.80, but the context of their use is not clear. For example, in government, mandate language may take on the appearance of a three-party arrangement. Mandate language may not be specific to the parties involved or the nature of arrangements. It is not clear if the paragraph applies to all mandated work/service, and/or mandated audits and engagements. ED paragraph 1.22 relates, note that the subheader preceding ED paragraph 1.22, <i>Nonaudit Services Provided by Audit Organizations and Other Professional Services Provided by Auditors in Government</i>, establishes that under GAGAS nonaudit services are a subset of professional services. The broader definition of professional services is not clear, in other</p>	<p>3.2: Clarify ED 3.80, including:</p> <p>A description of how the phrase “act for an engaging party (such as the governing body) to evaluate actions or information of a responsible party” translates in terms of specific effort and output under this type of professional service.</p> <p>Define the terms <i>professional services</i> and <i>three-party (and two-party) arrangements</i> and make it clear if the definitions hold throughout GAGAS or if the definitions apply only to ED paragraph 3.80. Consider the types of arrangements that GAGAS intends by its use of the word “arrangements”, for example: contracts, memorandums of understanding, formal (written) and/or informal (verbal), etc. Also, consider including examples of the types and nature of these arrangements.</p> <p>Define the context in which <i>engaging party</i> and <i>responsible party</i> are used in this paragraph, in other words, is GAGAS employing the terms in a broader context, here, or do they mean only in the context of attestation engagements?</p>	<p>3.2: Clarification would enhance the ability to properly interpret and comply with GAGAS requirements as they relate to nonaudit services and would promote consistent application of GAGAS.</p>

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			words, what professional services are applicable under GAGAS? ED paragraph 1.22, indicates that GAGAS does not cover nonaudit services (a subset of professional services).		
N/A – DAG General Comments Ethical Principles	3.07	3.07 All fundamental ethical principles apply to the relationship between the auditors and the engaging party, even if that party is not the responsible party.	<p>3.3: (1) ED paragraph 3.07: The context of ED paragraph 3.07 is ethical principles. And, the preceding ED paragraph 3.06 buckets ethical principles in 5 categories: a.-e., and ED paragraph 3.01 places independence and professional judgement topics separate from the ethical principles listed under a.-e. However, in ED paragraph 3.08 independence is included in the ethical principle category (a.) Public Interest, where independence is conveyed as an element of ethical principles.</p> <p>(2) In ED paragraph 3.07, it is indicated that All fundamental ethical principles apply to the relationship between the auditors and the engaging party, even if that party is not the responsible party.</p> <p>(3) The content in ED paragraph 3.07 appears to conflict with 2017 ED paragraph 3.24, which follows below in the chart and describes condition whereby Independence is N/A in the relationship between the auditors and the</p>	<p>3.3: (1) ED 3.07 Revisit the descriptions in the ED paragraphs 3.01 and 3.06, whereby independence and professional judgment are communicated organizationally outside of the ethical principles. ED 3.01, consider including the following sentence or something similar, “The concepts and requirements presented in this chapter interrelate to provide the overall framework for the application of GAGAS.” Also, consider revising ED 3.01 to expound upon the interconnectivity between the ethical principles, independence and professional judgment.</p> <p>(2) ED 3.07 Where ethical principles are intended to be communicated as those that are “fundamental” such as in ED paragraph 3.07, then consistently use the descriptor “fundamental”, for example, consider that ED paragraph 3.06 does not indicate the ethical principles to be those that are fundamental.</p> <p>(3) ED 3.07 (<i>Ethical Principles</i>): Refer to the comment and suggestion at ED paragraph 3.24, following.</p>	3.3: Clarification would enhance the ability to properly interpret and comply with GAGAS requirements as they relate to Ethical Principles and would promote consistent application of GAGAS.

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			<p>engaging party. Refer to the comment at ED paragraph 3.24, following.</p> <p>(4) ED Chapter 3 uses the terms <i>engaging party</i> and <i>responsible party</i> however these terms are not used consistently throughout the exposure draft. Other sections of the exposure draft use refer to <i>audited entity, individuals contracting for or requesting the engagement, and those charged with governance</i> (e.g., ED 3.10).</p>	<p>(4) Consider clarifying whether the GAGAS use of the terms <i>engaging party</i> and <i>responsible party</i> in ED paragraphs 3.07 and 3.24 are intended only in the context of attestation engagements or more broadly to include financial and performance audits. (The context of these terms is a matter for consideration throughout the ED.) If intended to broadly apply to all types of engagements, consider explaining interchangeability with <i>audited entity, individuals contracting for or requesting the engagement and those charged with governance</i>.</p>	
<p>N/A – DAG General Comments Independence</p>	<p>3.21 b.</p>	<p>3.21 Independence comprises the following:</p> <p>a. Independence of Mind</p> <p>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.</p> <p>b. Independence in Appearance</p> <p>The absence of circumstances that would cause a reasonable and informed third</p>	<p>3.4: ED paragraph 3.21 b. (<i>Application Guidance: General</i>) includes use of the phrase <i>member of the engagement team</i>; however, the definition of the engagement team includes professional staff members but not specifically auditors. Does GAGAS consider any individual, regardless of title, that participates in planning, directing, performing fieldwork, and/or reporting to be a member of the team? Or, are only those explicitly “assigned” considered a member of the team? Is formal assignment to the team required to be documented in the working papers? If not, is there possibility the individual would be off the radar for determining compliance with GAGAS</p>	<p>3.4: Clarify the term member of the engagement team and the requirements for documenting the team.</p>	<p>3.4: Clarification would enhance the ability to properly interpret and comply with GAGAS requirements as they relate to Independence and would promote consistent application of GAGAS.</p>

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		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.	requirements applicable to team members, such as independence?		
N/A – DAG General Comments Independence	3.22	3.22 It is important for auditors and audit organizations to maintain their independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and reasonable and informed third parties will view them as impartial.	3.5: ED paragraph 3.22 (<i>Application Guidance: General</i>) warrants clarification to ensure conveyance of the intended meaning. As written, the sentence could be misinterpreted.	3.5: Consider revising ED paragraph 3.22 to read, “It is important for auditors and audit organizations to maintain their independence so that their opinions, findings, conclusions, judgments, and recommendations will be impartial and that reasonable and informed third parties will view them as impartial.”	3.5: Clarification would enhance the ability to properly interpret and comply with GAGAS requirements as they relate to Independence and would promote consistent application of GAGAS.
N/A – DAG General Comments Independence	3.24	3.24 Under some conditions, the party requesting or requiring an engagement, referred to as the engaging party, will differ from the party responsible for the engagement’s subject matter, referred to as the responsible party. <u>Under such conditions, the GAGAS independence requirements apply to the relationship between the auditors and the responsible party, not the relationship between the auditors and the engaging party.</u> The following are examples...	3.6: Refer to comment (3) under ED paragraph 3.07.	3.6: ED 3.24 (<i>Application Guidance: General</i>) the relationship between the auditors and the engaging party and responsible party should be consistent for ethical principles and independence requirements and guidance.	3.6: Ethical principles and independence requirements and guidance for auditors hold true for both engaging and responsible parties.
N/A – DAG General Comments Independence	3.26	3.26 GAGAS’s practical consideration of independence consists of four interrelated sections, providing	3.7: ED paragraph 3.26 (<i>Application Guidance: General</i>) indicates use of four interrelated sections a.-d. However, the organizational	3.7: Add an underscored subheader to introduce the section of paragraphs described (in ED 3.26 b.) as <i>requirements for and guidance on independence for</i>	3.7: Simplifying navigation for a user generally encourages proper use.

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		<p>a. a conceptual framework for making independence determinations based on facts and circumstances that are often unique to specific environments;</p> <p>b. requirements for and guidance on independence for audit organizations that are structurally located within the entities they audit;</p> <p>c. requirements for and guidance on independence for auditors providing nonaudit services, including identification of specific nonaudit services that always impair independence and others that would not normally impair independence; and</p> <p>d. requirements for and guidance on documentation necessary to support adequate consideration of auditor independence.</p>	<p>format is not user-friendly for navigating to the sections mentioned.</p> <p>ED paragraph 3.26 b. does not correspond to a section of material that begins with an underscored subheader as do 3.26 a., c., and d.</p>	<p><i>audit organizations that are structurally located within the entities they audit.</i></p> <p>Having identified the paragraphs applicable to each of the four sections (a. b c. and d.) in ED 3.26, we suggest adding paragraph references to a, b, c and d. Please refer to the following examples: a. A conceptual... (¶¶3.27-3.57, 3.61-3.66) b. Requirements... (¶¶3.58-3.60)</p> <p>Also, we noted that the flow of paragraphs related to ED paragraph 3.26 a. is broken by the paragraphs we found related to 3.26 b. (¶¶ 3.58-3.60). Consider reorganization of the paragraphs to align with the flow of a., b, c and d.</p>	
N/A – DAG General Comments Independence	3.27	<p>3.27 Many different circumstances, or combinations of circumstances, are relevant in evaluating threats to independence. Therefore, GAGAS establishes a conceptual framework that auditors use to identify, evaluate, and apply safeguards to address threats to independence. The conceptual framework assists auditors in maintaining both independence of mind and independence in appearance. It can</p>	<p>3.8: ED paragraph 3.27 (<i>Application Guidance: General</i>) makes use of the term auditor, which is defined in GAGAS. However, non-auditors may be involved in planning, directing, performing fieldwork, or reporting who do not identify with the term auditor.</p> <p>ED paragraph 3.27 <i>Many different circumstances... Therefore, GAGAS establishes a conceptual framework that auditors use to identify, evaluate, and apply safeguards to</i></p>	<p>3.8: We suggest incorporating the term <i>member of the engagement team</i> (refer to suggestion at ED paragraph 3.21) to ensure all individuals, including non-auditors, that are responsible for applying the conceptual framework do so. For example, other ED paragraphs address <i>member of the engagement team</i> rather than auditor, refer to ED paragraph 3.48.</p>	<p>3.8: Clarification would enhance the ability to properly interpret and comply with GAGAS requirements as they relate to Independence and would promote consistent application of GAGAS.</p>

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		<p>be applied to many variations in circumstances that create threats to independence and allows auditors to address threats to independence that result from activities that are not specifically prohibited by GAGAS.</p>	<p><i>address threats to independence. The conceptual framework assists auditors in maintaining both independence of mind and independence in appearance. ...allows auditors to address threats to independence that result from activities that are not specifically prohibited by GAGAS.</i></p>		
<p>N/A – DAG General Comments Independence</p>	<p>3.28</p>	<p>3.28 Auditors should apply the conceptual framework¹² at the audit organization, engagement, and individual auditor levels to</p> <ul style="list-style-type: none"> a. identify threats to independence; b. evaluate the significance of the threats identified, both individually and in the aggregate; and c. apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level. <p>¹² See the flowchart at the end of ch. 3 on applying the conceptual framework in accordance with GAGAS.</p>	<p>3.9: ED paragraph 3.28 (<i>Requirements: GAGAS Conceptual Framework Approach to Independence</i>) includes footnote 12 which refers out to the flowchart which is actually labeled Figure 1: GAGAS Conceptual Framework for Independence</p>	<p>3.9: Relocate Figure 1 adjacent to the section of content to which it directly applies for ease of navigation.</p> <p>Maintain consistency between the footnote content and the Figure 1, itself, in so far as the title of Figure 1. Consider revising the footnote to read: ¹² See Figure 1: <i>GAGAS Conceptual Framework for Independence, a flowchart depiction of the conceptual framework.</i></p>	<p>3.9: Simplifying navigation for a user generally encourages proper use.</p> <p>Using identical titles in footnotes to what is being referenced facilitates proper understanding of expected compliance.</p>

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N/A – DAG General Comments Independence	3.63	3.63 The list of safeguards in paragraph 3.77 provides examples that may be effective under certain circumstances. The list cannot provide safeguards for all circumstances. It may, however, provide a starting point for auditors who have identified threats to independence and are considering what safeguards could eliminate those threats or reduce them to an acceptable level. In some cases, multiple safeguards may be necessary to address a threat. Some other examples include consulting an independent third party, such as a professional organization, a professional regulatory body, or another auditor, or removing an individual from an audit team when that individual’s financial or other interests or relationships pose a threat to independence.	3.10: ED 3.63 (<i>Application Guidance: GAGAS Conceptual Framework Approach to Independence</i>) As written, the first sentence in ED 3.63 appears to be telling the reader that the safeguards in ED 3.77 can be used broadly whereas ED 3.77 is limited for use re: nonaudit services.	3.10: Consider revising ED 3.63 to read, “The list of safeguards in paragraph 3.77 pertain to nonaudit service threats. These examples may provide a starting point for auditors who have identified other types of threats to independence and are considering appropriate safeguards. In some cases.....”	3.10: This will make it clearer that the list of safeguards in paragraph 3.77 are related to nonaudit services; however, could also be modified for threats to independence not related to nonaudit services.
N/A – DAG General Comments Professional Judgment	3.105	3.105 Professional judgment includes exercising reasonable care and professional skepticism. Reasonable care includes acting diligently in accordance with applicable professional standards and ethical principles. Attributes of professional skepticism include a questioning mind, awareness of conditions that may indicate possible misstatement owing to error or fraud, and a critical assessment of evidence. Professional skepticism includes being	3.11: As presented, there is a great deal of content in ED 3.105 to absorb in unbroken narrative form.	3.11: ED 3.105 (<i>Application Guidance: Professional Judgment</i>) Consider revising this paragraph to read, “Professional judgment includes exercising...ethical principles. Attributes of professional skepticism include: <ul style="list-style-type: none"> • a questioning mind, • awareness of conditions that may indicate possible misstatement resulting from owing to error or fraud, and • a critical assessment of evidence. Professional skepticism includes:	3.11: Our suggestion to ED 3.105 is designed to make the content more reader friendly.

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		<p>alert to, for example, evidence that contradicts other evidence obtained, or information that brings into question the reliability of documents or responses to inquiries to be used as evidence. Further, it includes a mindset in which auditors assume that management is neither dishonest nor of unquestioned honesty. Auditors may accept records and documents as genuine unless they have reason to believe the contrary. Auditors may consider documenting procedures undertaken to support their application of professional skepticism in highly judgmental or subjective areas under audit.</p>		<ul style="list-style-type: none"> • being alert to, for example, evidence that contradicts other evidence obtained, or information that brings into question the reliability of documents or responses to inquiries to be used as evidence, and • Further, it includes a mindset in which auditors assume that management is neither dishonest nor of unquestioned honesty. <p>Auditors may accept records and documents as genuine unless they have reason to believe the contrary. Auditors may consider documenting procedures undertaken to support their application of professional skepticism in highly judgmental or subjective areas under audit.</p>	
Chapter 4 – Competence and Continuing Professional Education					
GAO Q3. Do these roles and descriptions clarify the competence required of auditors conducting engagements in accordance with GAGAS?	4.09 – 4.10	GAO Q3. In this chapter, 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)	No, see comments/suggestions associated with these paragraphs below.		
GAO Q3. Is the level of proficiency expected for each of these roles clear?			Yes.		
	4.09	4.09 <i>Audit organizations and engagement teams</i> may consider the levels of proficiency needed for each	4.1: ED 4.09 (<i>Application Guidance: Indicators of Competence</i>) The application guidance in ED 4.09 differs from the	4.1: ED 4.09 (<i>Application Guidance: Indicators of Competence</i>) We suggest that the language in ED paragraphs 4.02, 4.03	4.1: Clarification would promote consistency between requirements and application guidance and, therefore,

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		<p>role on the engagement when assigning auditors to the engagement.</p> <p>4.02 The <i>audit organization’s management</i> must assign auditors to conduct the engagement who at the time of the assignment collectively possess the competence needed to address the engagement objectives and perform their work in accordance with GAGAS.</p> <p>4.03 The <i>audit organization’s management</i> must assign auditors who at the time of assignment possess the competence needed for their assigned roles.</p>	<p>corresponding requirements language in ED paragraphs 4.02 and 4.03 regarding who makes the assignments to the engagement team. Note that ¶¶4.02 and 4.03 refer only to audit organization’s management and not to engagement teams.</p>	<p>and 4.09 consistently communicate the responsibility for assigning auditors. Consider:</p> <p>The audit organization’s management and engagement teams may consider the levels of proficiency needed for each role on the engagement when assigning auditors to the engagement team.</p>	<p>increase the likelihood that a user will properly and consistently interpret, comply, and apply GAGAS requirements and guidance as intended.</p>
	4.10	<p>4.10 Roles on the engagement include the following:</p> <p>a. Entry level: Auditors in entry-level roles <i>plan or perform engagement procedures</i> on engagements. Work situations for these auditors are characterized by low levels of ambiguity, complexity, and uncertainty. The entry-level role necessitates at least a basic level of proficiency.</p> <p>b. Supervisory: Auditors in supervisory roles <i>plan engagements, perform engagement procedures</i>, or direct engagements. Work situations for these auditors are characterized by moderate levels of ambiguity, complexity, and</p>	<p>4.2: ED 4.10 (<i>Application Guidance: Indicators of Competence</i>) The role descriptions:</p> <ol style="list-style-type: none"> 1. Are not comprehensive to cover all roles that may exist in an audit organization and 2. Do not make consistent use of the term <i>plan</i> and the phrases <i>plan or perform engagement procedures</i> and <i>plan engagements</i> in the context of the roles described. 	<p>4.2: ED 4.10 (<i>Application Guidance: Indicators of Competence</i>) We suggest that the GAO revise ED 4.10 to remove any unintended appearance of limitation by its provision for only three possible roles in an audit organization. Consider:</p> <p>4.10 Roles on the engagement include, but are not limited to, the following:</p> <p>a. Entry level: Auditors in entry-level roles plan or perform engagement procedures on engagements. Work situations for these auditors are characterized by low levels of ambiguity, complexity, and uncertainty in conducting assignments on the engagement. The entry-level role</p>	<p>4.2: Clarification would increase the likelihood that a user will properly and consistently interpret, comply, and apply GAGAS requirements and guidance as intended.</p>

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		<p>uncertainty. The supervisory role necessitates at least an intermediate level of proficiency.</p> <p>c. Partners and directors: Auditors in these roles <i>plan engagements, perform engagement procedures</i>, or direct or report on engagements. They are also responsible for reviewing engagement quality prior to issuing the report, for signing the report, or both. Work situations for these auditors are characterized by high levels of ambiguity, complexity, and uncertainty. Partners and directors need at least an advanced level of proficiency.</p>		<p>necessitates at least a basic level of proficiency.</p> <p>b. Supervisory: Auditors in supervisory roles plan engagements (including engagement procedures), perform engagement procedures, assist in directing engagements, and/or review engagement quality prior to the partners and directors. Work situations for these auditors are characterized by moderate levels of ambiguity, complexity, and uncertainty in conducting assignments on the engagement. The supervisory role necessitates at least an intermediate level of proficiency.</p> <p>c. Partners and directors: Auditors in these roles plan engagements (including engagements procedures), perform engagement procedures, or direct engagements and/or report on engagements. They are also responsible for reviewing engagement quality prior to issuing the report, for signing the report, or both. Work situations for these auditors are characterized by high levels of ambiguity, complexity, and uncertainty with regard to the engagement. Partners and directors need at least an advanced level of proficiency.</p>	

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N/A – DAG General Comments Competence	4.02-4.03	<p>4.02 The audit organization’s management must assign auditors to conduct the engagement who at the time of the assignment collectively possess the competence needed to address the engagement objectives and perform their work in accordance with GAGAS.</p> <p>4.03 The audit organization’s management must assign auditors who at the time of assignment possess the competence needed for their assigned roles.</p>	<p>4.3: ED 4.02 and 4.03 (<i>Requirements: General</i>) The language in ED paragraphs 4.02 and 4.03 include the words <i>assignment</i> and <i>assign</i>. However, the paragraphs are silent as to what is being referred to, in other words: assign or assignment <i>to what?</i> Assuming the author is referring to assignment to the <i>engagement team</i>, note that the definition of the term <i>engagement team</i> in ED 1.23h. does not include the term <i>auditor</i>, which is the term used in paragraphs 4.02 and 4.03. The definition of <i>engagement team</i> in ED 1.23h. used <i>professional staff</i>; however, the term <i>professional staff</i> is not defined in ED 1.23. The author’s intent for using different terminology is not clear, for example, ED paragraph 3.48, among others, specifically indicates <i>member of the engagement team</i> rather than <i>auditor</i> or <i>professional staff</i>. And, ED paragraph 4.20 refers to audit organization <i>personnel</i>.</p> <p>Variance in terminology within different contexts adds to confusion. For example, in practical application circumstances, non-auditors involved in planning, directing, performing fieldwork, or reporting may not identify themselves as an <i>auditor</i>, but when involved in planning, directing, performing fieldwork, or reporting, should still be considered assigned to the engagement team. Similarly, others who assist with the engagement but are uninvolved in planning, directing, performing fieldwork, or reporting</p>	<p>4.3: ED 4.02 and 4.03 (<i>Requirements: General</i>) Consider: ED paragraphs 4.02 and 4.03 and ED 1.23 as relate to terminology, overall, are examples of where terminology in the paragraphs may cause unintended confusion.</p> <p>We suggest that the GAO first define the terms: <i>staff</i>, <i>professional staff</i>, <i>personnel</i> and <i>member of the engagement team</i>. We suggest incorporating a definition for the term <i>member of the engagement team</i> to ensure both auditors and non-auditors involved in planning, directing, performing fieldwork, or reporting are clear as to the GAGAS requirements applicable to them as a <i>member of the engagement team</i>, such as the requirement to apply the conceptual framework for independence, for example.</p> <p>We suggest a definition for <i>professional staff</i> to clarify “who” GAGAS is including in this group of individuals. Does this group include those already listed in the definition of <i>auditors</i>, such as attorneys? And, are all non-auditors that are on <i>staff</i> with the audit organization included or just those that hold a professional distinction but excluding, for example, attorneys who are included in the definition of <i>auditors</i>?</p>	<p>4.3: Clarification in the terminology and consistency in the use of the terms throughout the ED would increase the likelihood that a user will properly and consistently interpret, comply, and apply GAGAS requirements and guidance as intended.</p>

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			<p>would not necessarily be assigned to the engagement team.</p>	<p>Once definitions are added, then the GAO should revisit the many contexts throughout the ED containing the words assign and assignment and the terms <i>engagement team, auditor, staff, professional staff, personnel, and member of the engagement team</i> and ensure that the terms are used consistently in the various chapters’ contexts, as intended. Audit organizations should be able to apply the terms consistently across their organization regardless the type of audit or engagement being performed.</p> <p>Also, we suggest GAGAS incorporate a documentation requirement for the identification of <i>members assigned to the engagement team</i>.</p>	
<p>N/A – DAG General Comments Competence</p>	<p>4.05</p>	<p>4.05 The engagement team should determine that specialists consulting on a GAGAS engagement are qualified and competent in their areas of specialization.</p>	<p>4.4: ED 4.05 (<i>Requirements: Specialists</i>) - What is the definition of consulting? Is it strictly an individual who is NOT assigned to the audit? Is it someone who does NOT plan, direct, perform engagement procedures for, or report on an engagement conducted in accordance with GAGAS? (This is related to our feedback about needing a definition of member of the engagement team.)</p>	<p>4.4: GAO should consider defining consulting and/or providing further explanation of consulting in the application guidance related to this section.</p>	<p>4.4: Understanding the intent of the action of “consulting” facilitates proper application of other GAGAS sections (for example ED 8.29).</p>

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N/A – DAG General Comments Competence	4.08	<p>4.08 The knowledge, skills, and abilities needed when conducting an engagement in accordance with GAGAS include the understanding necessary to proficiently apply</p> <p>c. techniques, tools, and guidance related to professional expertise applicable to the work being performed.</p> <p>Auditors successfully achieving proficiency in these areas helps ensure that engagements are conducted in accordance with GAGAS.</p>	4.5: ED 4.08 could be strengthened to better align with the GAO concept of <i>levels of proficiency</i> described in ED 4.09.	<p>4.5: ED 4.08 (<i>Application Guidance: Indicators of Competence</i>) GAO should consider the following edits:</p> <p>4.08c. techniques, tools, and guidance supporting the level of professional expertise necessary and applicable to the work being performed.</p> <p>ED 4.08, last paragraph: Auditor successfully achieving proficiency in these areas helps to ensure that engagements are conducted in accordance with GAGAS. Three levels of proficiency are described when assessing competence for assigned roles.</p>	4.5: Clarification for the consistent use of phrases associated with concepts would enhance the flow of thought and increase the likelihood that a user will properly and consistently interpret, comply, and apply GAGAS requirements and guidance as intended.
N/A – DAG General Comments Competence	4.08	<p>4.08 The knowledge, skills, and abilities needed when conducting an engagement in accordance with GAGAS include the understanding necessary to proficiently apply</p> <p>a. GAGAS;</p> <p>b. standards, statutory requirements, regulations, criteria, and guidance applicable to auditing or the objectives for the engagement(s) being conducted; and</p> <p>c. techniques, tools, and guidance related to professional expertise applicable to the work being performed.</p>	4.6: 2011 GAGAS 3.72 c includes the requirement that staff assigned to conduct an audit collectively possess skills to communicate clearly and effectively, both orally and in writing. ED 4.08 doesn’t address communication skills.	4.6: GAO should consider incorporating the communication skill component into the application guidance presented in ED 4.08 (<i>Application Guidance: Indicators of Competence</i>).	4.6: Skills to communicate clearly and effectively, both orally and in writing are essential to understanding and applying GAGAS appropriately

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N/A – DAG General Comments Competence	4.11	<p>4.11 Definitions of key terms follow:</p> <p>a. Planning: Determining engagement objectives, scope, and methodology; establishing criteria to evaluate matters subject to audit; or coordinating the work of other audit organizations. This definition excludes auditors whose role is limited solely to gathering information used in planning the engagement.</p> <p>b. Directing: Supervising the efforts of others who are involved in accomplishing the objectives of the engagement or reviewing engagement work to determine whether those objectives have been accomplished.</p> <p>c. Performing engagement procedures: Performing tests and procedures necessary to accomplish the engagement objectives in accordance with GAGAS.</p> <p>d. Reporting: Determining the report content and substance or reviewing reports to determine whether the engagement objectives have been accomplished and the evidence supports the report’s technical content and substance prior to issuance. This includes reviewing engagement quality prior to issuing the report and signing the report.</p>	<p>4.7: ED 4.11 The context of the terminology definitions in the paragraph pertains to the phases of an audit or engagement and, therefore, it would be clearer if they were more descriptively indicated.</p>	<p>4.7: ED 4.11 (<i>Application Guidance: Indicators of Competence</i>) We suggest that the series of terms in ED 4.11 more clearly describe the context within which they are being provided.</p> <p>Consider: 4.10 Definitions of key terms Terminology related to phases of an engagement: follow:</p> <p>a. Planning: Includes, but is not limited to, determining engagement objectives, scope, and methodology; identifying existing criteria or establishing criteria to evaluate the subject matter(s) identified to accomplish engagement objectives; or coordinating the work of other audit organizations, auditors, or specialists. This definition excludes planning-related effort that is limited solely to gathering information used in planning the engagement.</p> <p>b. Directing: Supervising the efforts of the engagement team and others who assist but are not assigned to the engagement team because they are not involved in planning, directing, performing fieldwork, and/or reporting; and reviewing engagement work to the degree necessary to ensure determine whether the engagement objectives have been accomplished.</p> <p>c. Performing engagement procedures: Performing Executing engagement tests and procedures necessary to accomplish</p>	<p>4.7: Adding description to the terminology provides clarity for the context in which the terms are provided, which would increase the likelihood that a user will properly and consistently interpret, comply, and apply GAGAS requirements and guidance as intended.</p>

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				the engagement objectives in accordance with GAGAS. d. Reporting: Determining the report content and substance appropriate for inclusion in the report in accordance with GAGAS ; reviewing reports to determine whether the report’s technical content and substance are supported by sufficient appropriate evidence to accomplish the engagement objectives ; and reviewing engagement quality prior to signing and issuing the report.	
N/A – DAG General Comments Competence	4.12	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, attorneys, engineers, environmental consultants, medical professionals, statisticians, geologists, and information technology experts.	4.8: ED 4.12 (<i>Application Guidance: Specialists</i>) As written, the paragraph restricts the auditor’s need for a specialist to the criteria of needing their “skills”... only? However, in ED 4.13 GAO considers specialists in the context of their expertise by use of the phrase <i>expertise of specialists</i> . We also commented on ED paragraph 4.08c. regarding use of the phrase.	4.8: ED 4.12 (<i>Application Guidance: Specialists</i>) GAO should consider the following clarifying edits: “Some engagements may necessitate the use of specialized techniques, methods, or skills that call for the skills professional expertise of specialists. Specialists to whom this section ...experts.”	4.8: Clarification would increase the likelihood that a user will properly and consistently interpret, comply, and apply GAGAS requirements and guidance as intended. Further, the clarification is more consistent with ED paragraph 4.13 which incorporates the concept of the <i>expertise of specialists</i> .
GAO Q4. 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.	Chapter 4 Paragraphs 4.15 & 4.23	GAO Q4. This chapter 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	Certain topics covered in YB are not listed as allowable subjects for the 4 CPE requirement. If these topics are not listed, it is not clear they are allowable. We suggest that the following topics be allowable under 4.23: <ul style="list-style-type: none"> • Types of GAGAS Users • Understanding GAGAS (Terms used in GAGAS, The GAGAS Format & Complying with GAGAS) 		

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		would qualify as GAGAS topics. (paras. 4.15 and 4.23)			
	4.15	4.15 Auditors who plan, direct, perform engagement procedures for, or report on an engagement conducted in accordance with GAGAS should complete the GAGAS Qualification requirements as part of developing and maintaining their professional competence. <i>GAGAS Qualification requires auditors to complete at least 4 hours of CPE in GAGAS topics.</i> Auditors assigned to supervisory or partner and director roles should obtain GAGAS Qualification before completing work on their first GAGAS engagement. Entry-level staff should obtain GAGAS Qualification by the end of their first full 2-year CPE period.	4.9: ED 4.15 (<i>Requirements: GAGAS Qualification</i>) GAGAS Qualification isn’t defined or addressed prior to the requirements pertaining to GAGAS Qualifications. In addition, the professional competence requirements referenced in ED 4.15 should be linked to the paragraph that prescribes the professional competence requirements (ED 4.18) to facilitate proper understanding of competence requirements.	4.9: GAO should consider revising ED 4.15 to read, “ GAGAS Qualification requires auditors to complete at least 4 hours of CPE in GAGAS topics. Auditors who plan, direct, perform engagement procedures for, or report on an engagement conducted in accordance with GAGAS should complete the GAGAS Qualification requirements as part of developing and maintaining their professional competence (refer to 4.18). GAGAS Qualification requires auditors to complete at least 4 hours of CPE in GAGAS topics. Auditors assigned to supervisory or partner and director roles should obtain GAGAS Qualification before completing work on their first GAGAS engagement. Entry-level staff should obtain GAGAS Qualification by the end of their first full 2-year CPE period.”	4.9: Clarity of the requirement will assist with proper application.
N/A – DAG General Comments Continuing Professional Education	4.20	4.20 The continuing competence of the audit organization’s personnel depends, in part, on an appropriate level of CPE so that auditors maintain the knowledge, skills, and abilities necessary to conduct the GAGAS engagement.	4.10: ED 4.20 (<i>Application Guidance: General</i>) Does the author mean to say all staff, auditors, professional staff, engagement team, etc.? [Refer to comment about terminology at ED paragraphs 4.02 and 4.03]	4.10: GAO should consider replacing “personnel” with auditor or clarifying the group identified as “personnel”.	4.10: Promote consistency and clarity in content related to CPE to enhance the ability to properly interpret and comply with GAGAS requirements and guidance, and to facilitate consistent application of GAGAS.
N/A – DAG General Comments Continuing Professional Education	4.24 b.	4.24 b. U.S. generally accepted accounting principles, or the applicable financial reporting framework being	4.11: The topics listed in ED 4.24 b. (<i>Application Guidance: Subject Matter Categories of CPE</i>) includes two different	4.11: GAO should consider splitting the following into separately lettered items:	4.11: Inclusion of GAAP and SASs in the same topical item is awkward and makes it easy to overlook SASs as a topical area.

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		used, the American Institute of Certified Public Accountants’ (AICPA) Statements on Auditing Standards;	topics which deviates from presentation of the other topical items.	<ul style="list-style-type: none"> • U.S. generally accepted accounting principles (GAAP), or the applicable financial reporting framework being used • the AICPA Statements on Auditing Standards (SAS) 	
N/A – DAG General Comments Continuing Professional Education	4.24 c.	<p>4.24 c. the AICPA general attestation standard related to criteria, the AICPA attestation standards for fieldwork and reporting, and the related Statements on Standards for Attestation Engagements and Statements on Standards for Accounting and Review Services;²²</p> <p>²²See para. 7.01 for a discussion of the AICPA standards incorporated into GAGAS for attestation engagements and reviews of financial statements.</p>	4.12: ED 4.24 c (<i>Application Guidance: Subject Matter Categories of CPE</i>) Attestation standards were clarified and re-codified by the AICPA with the issuance of SSAE No. 18 in April 2016. The previous codification included an Introduction to the attestation standards which captured standards as General, Fieldwork, and Reporting; however, with SSAE No. 18, the previous Introduction has been superseded with a Preface that no longer captures standards in these categories.	<p>4.12: GAO should consider revising ED 4.24c with language that conforms with SSAE No. 18 and is consistent with ED paragraph 7.01. For example:</p> <p>4.24 c. The AICPA’s Statements on Standards for Attestation Engagements and Statements on Standards for Review Services.</p>	4.12: Clarification would increase the likelihood that a user will properly and consistently interpret, comply, and apply GAGAS requirements and guidance as intended.
GAO Q5. 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?	Paragraphs 4.26 - 4.50	GAO Q5. 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)	<p>Yes. The following portions of the 2005 Guidance should be retained:</p> <ul style="list-style-type: none"> • Paragraphs 17 and 19 provide the audit organization with the following authority: “the audit organization is ultimately responsible for determining whether a subject or topic qualifies as acceptable CPE for its auditors.” Inclusion of this guidance in Chapter 4 will give the audit organization the necessary determination authority to facilitate consistent categorization of CPE. • Paragraph 31 includes the following example “...For example, a discussion leader could receive up to 21 CPE hours for a presentation of 350 minutes (7 hours for presentation and 14 hours for preparation). In this same example, an individual who develops or writes the course materials but does not participate in the presentation could receive up to 14 hours of CPE...” Inclusion of this example in ED 4.36 will assist with clarifying the calculation of CPE in this situation. 		

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	4.26	<p>4.26 Auditors may be exempted from the 56-hour CPE requirement by the audit organization, but not the 24-hour and 4-hour GAGAS Qualification requirements, if they</p> <p>a. charge less than 20 percent of their time annually to engagements conducted in accordance with GAGAS and</p> <p>b. are only involved in <u>performing engagement procedures</u>, but not involved in planning, directing, or reporting on the engagement.</p>	<p>4.13: ED 4.26 (<i>Application Guidance: Exemptions and Exceptions</i>) fails to use language consistent with that of <u>the entry level auditor role in paragraph 4.10a.</u>, which indicates “<i>plan or perform engagement procedures</i>”</p>	<p>4.13: ED 4.26 (<i>Application Guidance: Exemptions and Exceptions</i>) We suggest that language align with ED language 4.10a. Consider: ED 4.26 Auditors may be exempted from the 56-hour CPE requirement by the audit organization, but not the 24-hour and 4-hour GAGAS Qualification requirements, if they...</p> <p>b. only plan or perform engagement procedures, and are not involved in planning, directing, or reporting on the engagement.</p>	<p>4.13: Clarification would increase the likelihood that a user will properly and consistently interpret, comply, and apply GAGAS requirements and guidance as intended.</p>
Chapter 5 – Quality Control and Peer Review					
GAO Q6. Are the changes to the quality control and external peer review sections appropriate and reasonable?	Chapter 5	GAO Q6. In this chapter, 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.	Please refer to the following comments.		
	5.09, 5.11	<p>5.09 At least annually, the audit organization should obtain written affirmation of compliance with its policies and procedures on independence from all audit organization personnel required to be independent.</p> <p>5.11 Written affirmation of compliance with its policies and procedures on independence from all audit organization personnel required to be independent</p>	<p>5.1: ED 5.09 (<i>Requirements: Independence, Legal, and Ethical Requirements</i>) requires audit organizations, at least annually, to obtain written affirmation of compliance with its P&P on independence from all audit organization personnel required to be independent. Is this affirmation to be prospective (i.e., beginning of the calendar year for all engagements planned to be started/conducted) or retrospective (i.e., end of the calendar year for all engagements conducted/in process) or both?</p>	<p>5.1: Include additional application guidance to ED 5.11 to address the intended timing of complying with this new requirement or to convey the timing is at the discretion of the audit organization.</p> <p>Consider deleting “and visible to, its personnel.” In ED 5.11.</p>	<p>5.1: Inserting clarified guidance and making the proposed revision will assist with proper implementation and understanding of the new requirement.</p>

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		<p>may be in paper or electronic form. By obtaining affirmation and taking appropriate action on information indicating noncompliance, or potential noncompliance, the audit organization demonstrates the importance that it attaches to independence and keeps the issue current for, and visible to, its personnel.</p>	<p>In addition, the inclusion of “and visible to, its personnel.” in ED 5.11 could be unintentionally misinterpreted to limit transparency.</p>		
	5.12, 5.13	<p>5.12 Audit organizations should establish policies and procedures for the initiation, acceptance, and continuance of engagements that are designed to provide reasonable assurance that the audit organization will undertake engagements only if the organization</p> <p>c. has the capabilities, including time and resources, to do so.</p> <p>5.13 Audit organizations may operate with limited resources. Audit organizations may consider their workloads in determining whether they have the resources to deliver the range of work to the desired level of quality. To achieve this, audit organizations may develop systems to prioritize their work in a way that takes into account the need to maintain quality.</p>	<p>5.2: ED 5.12 <i>c (Requirement: Initiation, Acceptance, and Continuance of Audits)</i> – Consider revising this new requirement to address audit quality.</p>	<p>5.2: ED 5.12, “Audit organizations should.....only if the organization:...</p> <p>c. has the capabilities, including time and resources, to do so without compromising audit quality.”</p>	<p>5.2: Clarification will assist with aligning requirement with the related application guidance at ED 5.13.</p>

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	5.21, 5.33	<p>5.21 The audit organization should establish policies and procedures pertaining to review of audit work performed and related audit documentation that require experienced engagement team members to review the work of less experienced engagement team members.</p> <p>5.33 Engagement supervision includes the following: a. tracking the progress of the engagement; b. considering the competence of individual members..... c. addressing significant findings..... d. identifying matters for consultation.....</p>	5.3: ED 5.33 (<i>Application Guidance: Audit Performance, Documentation, and Reporting</i>) outlines application guidance related to engagement supervision. The requirements included in ED 5.20-5.26 (<i>Requirements: Audit Performance, Documentation, and Reporting</i>) infer engagement supervision only in the scope of the review of audit work performed and related audit documentation in ED 5.21.	5.3: Revise ED 5.21 (<i>Requirements: Audit Performance, Documentation, and Reporting</i>) to broaden applicability to include supervision. “The audit organization should establish policies and procedures pertaining to supervision to include the review of audit work performed....members.”	5.3: Revising the requirement will align requirement with the application guidance at ED 5.33.
	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 and procedures for GAGAS engagements. Individuals performing monitoring should collectively have sufficient expertise and authority.	5.4: ED 5.43 (<i>Requirements: Monitoring of Quality</i>) prescribes that individuals performing monitoring should collectively have sufficient expertise and authority. The exposure draft is silent to the independence of the individuals assigned to perform monitoring.	5.4: Consider including application guidance similar to the guidance provided in 2011 GAGAS A3.10 c.(1) “Monitoring is most effective when performed by persons who do not have responsibility for the specific activity being monitored.”	5.4: When feasible, incorporating independence into the monitoring process promotes the production of monitoring results from an objective perspective.
	5.46	5.46 The audit organization should establish policies and procedures that require retention of engagement documentation for a period of time sufficient to permit those performing	5.5: ED 5.46 (<i>Requirements: Monitoring of Quality</i>) prescribes policy and procedure requirements pertaining to the retention of engagement documentation. The ED requirement appears to have dropped the safe	5.5: Consider revising ED 5.46 to include “safe custody.” “The audit organization should establish policies and procedures that require the safe custody and retention	5.5: Safeguarding engagement documentation is important to protecting client information, confidential information, etc.

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		monitoring procedures and peer review of the audit organization to evaluate its compliance with its system of quality control or for a longer period if required by law or regulation.	custody portion of the requirement contained in the 2011 version of GAGAS, 3.92.	of engagement documentation.....law or regulation.”	
	5.53, 5.55, 5.62	<p>5.53 Reviews of the work by engagement team members prior to the date of the report, such as second partner reviews, are not monitoring procedures because it is expected that quality issues identified during such reviews will be addressed prior to the date of the report. Monitoring procedures, by contrast, are performed on <i>completed</i> engagements.</p> <p>5.55 The inspection of a selection of <i>completed</i> engagements may be performed on a cyclical basis. The manner in which the inspection cycle is organized, including the timing of selection of individual engagements, depends on many factors....</p> <p>5.62 Appropriate documentation relating to monitoring may include, for example, the following: a. monitoring procedures, including the procedure for selecting <i>completed</i> engagements to be inspected;....</p>	5.6: ED 5.53, 5.55, and 5.62 (<i>Application Guidance: Monitoring of Quality</i>) provide that monitoring is to be performed on “completed” engagements. The term “completed” could be interpreted differently by audit organizations. For example, it could be interpreted to mean released audits, audits through the required supervisory process but not yet released, or audits where field work is completed but supervisory review has yet to be finalized.	5.6: To avoid unintended loose interpretation and application of monitoring requirements, consider defining the term “completed.”	5.6: Internal monitoring efforts, if performed prematurely, could result in incomplete or inaccurate results. Also, audit organizations could be cited during external peer reviews for unintentional misapplication of the monitoring requirements.
	5.59-5.61	5.59 Policies and procedures established for <i>investigating</i> complaints and allegations may include, for example,	5.7: ED 5.59-5.61 (<i>Application Guidance: Monitoring of Quality</i>) label the evaluation of complaints and allegations with the audit	5.7: Consider replacing “investigating” and “investigations” with “evaluating” or “assessing” / “evaluation” or “assessment.”	5.7: Audit organizations could misinterpret the use of investigation and apply criteria

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		<p>that the engagement partner or director supervising the <i>investigation</i>.....</p> <p>5.60 The engagement partner or director supervising the <i>investigation</i> may involve legal counsel as necessary.</p> <p>5.61 In the case of audit organizations with few engagement partners or directors, it may not be practicable for the engagement partner or director supervising the <i>investigation</i> not to be involved in the engagement. These small audit organizations and sole practitioners may use the services of a suitably qualified external person or another audit organization to carry out <i>investigations</i> into complaints and allegations.</p>	<p>organization’s system of quality control as “investigations.” The context of the use of the word “investigations” is not clear. “Investigations” could be implied to mean the involvement of law enforcement agencies or to prompt the use of criteria typically used in a formal investigatory process (e.g., PCIE’s standards for investigations).</p>	<p>Or, clarify the context of the word “investigations.”</p>	<p>not related to the intent of the application guidance.</p>
	Footnote 28	<p>5.08 Audit organizations should establish policies and procedures on independence and legal and ethical requirements that are designed to provide reasonable assurance that the audit organization and its personnel maintain independence and comply with applicable legal and ethical requirements.²⁸</p> <p>²⁸See paras. 3.02 through 3.17 for a discussion of ethical principles.</p>	<p>5.8: Footnote 28 only includes a reference to the ethical principles and doesn’t reference the independence content that aligns with the requirement at ED 5.08 (<i>Requirements: Independence, Legal, and Ethical Requirements</i>).</p>	<p>5.8: Consider revising footnote 28 to read, “Refer to paragraphs 3.02 through 3.17 for a discussion on ethical principles and paragraphs 3.18 through 3.103 for a discussion on independence.”</p>	<p>5.8: Proposed revision will assist the reader with linking applicable requirements.</p>

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	N/A	N/A	5.9: ED section <i>Application Guidance: Initiation, Acceptance, and Continuance of Audits</i> is silent to the limitations imposed on government audit organizations when performing a mandated engagement.	5.9: Include A3.10a supplemental guidance of the 2011 Yellow Book prior to ED 5.13. A3.10 a. Government audit organizations initiate audits as a result of (1) legal mandates, (2) requests from legislative bodies or oversight bodies, and (3) the audit organization’s discretion. In the case of legal mandates and requests, a government audit organization may be required to perform the audit and may not be permitted to make decisions about acceptance or continuance and may not be permitted to resign or withdraw from the audit.	5.9: Inclusion of this additional application guidance will assist government audit organizations with application the requirement at ED 5.12.
	5.14	5.14 Audit organizations should establish policies and procedures for human resources that are designed to provide them with reasonable assurance that they have personnel with the <i>competence</i> to conduct GAGAS engagements in accordance with applicable professional standards and legal requirements.	5.10: An opportunity is missed in ED 5.14 to include a footnote reference to the competency paragraphs at ED 4.02-4.14 which could aide a reader with the application of the requirements contained in ED 5.14. to add clarity to the Footnotes are inconsistently included throughout the ED to reference to other relevant ED paragraphs.	5.10: Consider adding a footnote to ED 5.14 (<i>Requirement: Human Resources</i>) to read: “Refer to paragraphs 4.02 through 4.14 for a discussion on competence.” Consider reviewing ED content for the inclusion of additional footnotes to reference to other applicable ED content.	5.10: Suggestions will assist the reader with linking applicable requirements.
GAO Q7. Are the peer review requirements for each category of audit organization clear?	Chapter 5 Paragraphs 5.63 – 5.113	GAO Q7. In this chapter, 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)	Please refer the following comments.		

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		Multiple citations	5.11: ED 5.63-5.79 (<i>External Peer Review</i>) is silent on the minimum peer review interval for audit organizations affiliated with recognized organizations (i.e., audit organizations have an external peer review performed at least once every 3 years). ED 5.67 provides information on how to obtain extensions for external peer review reports exceeding 3 months beyond the due date.	5.11: Consider adding the required peer review interval in the peer review requirement conveyed in ED 5.63. Or, include information in the application guidance to address how the peer review interval is established under the affiliated organization section of Chapter 5 (e.g., affiliated organization establishes the interval in conjunction with the GAO).	5.11: Inclusion of language in the requirement or application guidance will facilitate audit organizations’ understanding of the peer review requirements and will promote consistency among audit organizations regardless of their affiliation with a recognized organization.
		<p>5.77 Because information in peer review reports may be relevant to decisions on procuring audit services, an audit organization seeking to enter into a contract to conduct a performance audit in accordance with GAGAS should provide the following to the party contracting for such services when requested:</p> <p>a. the audit organization’s most recent peer review report and</p> <p>b. any subsequent peer review reports received during the period of the contract.</p>	5.12: ED 5.77 (<i>Requirements: Availability of the Peer Review Report to the Public</i>) provides the following, “Because information in peer review reports may be relevant to decisions on procuring audit services, an audit organization seeking to enter into a contract to conduct a performance audit in accordance with GAGAS” The related requirement in the 2011 version of GAGAS, 3.106 is more broadly applicable to all types of engagements contracted to be conducted in accordance with GAGAS (“Therefore, audit organizations seeking to enter into a contract to perform an audit in accordance with GAGAS should provide the following...”	5.12: GAO should confirm that the change to the scope of the requirement was intentional.	5.12: Audit organizations could procure for audit services re: financial audits, attestation engagements and/or performance audits. Obtaining peer review reports of firms submitting to perform any of those engagement types may be relevant to procurement decisions.
		5.72 The peer review team should aggregate and systematically evaluate any observed matters (circumstances that warrant further consideration by the peer review team) and document their evaluation. ²⁹ The peer review team should perform their evaluation and issue report ratings as follows:...	5.13: ED paragraphs 5.72 & 5.100 (<i>Requirements: Peer Review Report Ratings</i>) both include a footnote which refers out to the flowchart which is actually labeled Figure 2: <i>Developing Peer Review Communications for Observed Matters in Accordance with GAGAS</i>	5.13: Relocate Figure 2 adjacent to the section(s) of content to which it directly applies for ease of navigation. Maintain consistency between the footnote content and the Figure 2, itself, in so far as the title of Figure 2. Consider revising the footnote(s) to read:	5.13: Simplifying navigation for a user generally encourages proper use. Using identical titles in footnotes to what is being referenced facilitates proper understanding of expected compliance.

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		<p>5.100 The peer review team should aggregate and systematically evaluate any observed matters (circumstances that warrant further consideration by the peer review team) and document their evaluation.³⁰ The peer review team should perform their evaluation and issue report ratings as follows:....</p> <p>²⁹ & ³⁰ See the flowchart at the end of ch. 5 on developing peer review communications for observed matters in accordance with GAGAS.</p>		<p><i>See Figure 2: Developing Peer Review Communications for Observed Matters in Accordance with GAGAS</i></p>	
		<p>Multiple citations.</p>	<p>5.14: The ED content pertaining to external peer review contains redundant language due to the segregation of audit organizations affiliated with recognized peer review organizations and those not affiliated with recognized peer review organizations. These redundant paragraphs are:</p> <ul style="list-style-type: none"> • ED paragraphs 5.70-5.74 & 5.98-5.102 • ED paragraphs 5.75-5.79 & 5.109-5.113 <p>In addition, the header inserted prior to ED 5.68 is labeled, “<i>Additional</i> Requirements for Audit Organizations Affiliated with Recognized Organizations.” The header inserted prior to ED 5.80 is labeled, “Requirements for Audit Organizations Not Affiliated with Recognized Organizations.” Use of “<i>Additional</i>” should be consistently included or excluded.</p>	<p>5.14: Consider restructuring the peer review-related content to present redundant information only once. In addition, evaluate the consistency of content headers.</p>	<p>5.14: To assist with properly interpreting applicable peer review requirements and guidance.</p>

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Chapter 6 – Standards for Financial Audits					
N/A – DAG General Comments Additional GAGAS Requirements for Conducting Financial Audits	6.06, 6.07	<p>6.06 If the law or regulation requiring an audit specifically identifies the entities to be audited, auditors should communicate pertinent information that in the auditors’ professional judgment needs to be communicated both to individuals contracting for or requesting the audit and to those legislative committees, if any, that have ongoing oversight responsibilities for the audited entity.</p> <p>6.07 If the identity of those charged with governance is not clearly evident, auditors should document the process followed and conclusions reached in identifying the appropriate individuals to receive the required auditor communications.</p>	6.1: ED 6.06 & 6.07 (<i>Requirements: Auditor Communication</i>) prescribe additional GAGAS communication without linking or referencing to the related AU-C Section 260, <i>The Auditor’s Communication with Those Charged with Governance</i> . Without linking or referencing to the related AICPA communication requirements, the first mention of those charged with governance is in ED 6.07 and is presented without any related context for an associated communication requirement.	6.1: GAO should consider adding a footnote to ED 6.06 to make reference to the existence of AICPA’s communication requirements pertaining to those charged with governance.	6.1: Suggested revision to enhance comprehension of the requirements.
N/A – DAG General Comments Additional GAGAS Requirements for Reporting on Financial Audits	6.39	6.39 Auditors should communicate findings in writing to audited entity officials when they detect <i>potential</i> instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements or fraud, waste, or abuse that have an effect on the financial statements or other financial data significant to the audit objectives that are less than material but warrant the attention of those charged with governance.	6.2: ED 6.39 The addition of the word “potential” increases the spectrum of what may be reported and communicated concerning <i>instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements or fraud, waste, or abuse</i> . Expectation is that an audit will produce results concerning, among other results, actual instances and not “potential” ones. In the absence of specific reporting and communication language pertaining to “potential” instances, misinterpretation is possible between auditors, management, and those charged with governance (users).	6.2: ED 6.39 (<i>Requirements: Reporting on Internal Control; Compliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements; and Instances of Fraud, Waste, or Abuse</i>) At a minimum, an auditor’s decision to report “potential” instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements or fraud, waste, or abuse should be supported by specific planning-level understanding with the auditee concerning expectations for potential instances during the audit and the limited nature of any results that would	6.2: Suggestion to eliminate “potential” or otherwise enhance requirements and guidance related to audits that include “potential” instances.

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				include “potential” instances. Audit effort and reporting should be driven by specific requirements related to “potential” instances in order to avoid confusion and misinterpretation given the general understanding and expectation for auditing that includes actual instances of noncompliance with provisions of laws, regulations, contracts, or grant agreements or fraud, waste, or abuse	
Chapter 7 – Standards for Attestation Engagements and Reviews of Financial Statements					
GAO Q8. Please comment on the expanded requirements and application guidance.	Chapter 7 Paragraphs 7.68 – 7.80	GAO Q8. This chapter is expanded to incorporate by reference Statement on Standards for Accounting and Review Services No. 21, section 90, <i>Review of Financial Statements</i> , and includes additional requirements and guidance for reviews of financial statements conducted in accordance with GAGAS. (paras. 7.68 through 7.80)	No comments.		
N/A - DAG General Comments Examination Engagements	7.06	7.06 The AICPA standards applicable to examinations require the auditors to apply the concept of materiality appropriately in planning and performing the examination. Additional considerations may apply to GAGAS engagements that concern government entities or entities that receive government awards. For example, . . . sensitivity of government programs.	7.1: ED 7.06 (<i>Application Guidance: Compliance with Standards</i>) should not only address the concept of materiality but also include consideration of preliminary judgments related to attestation risk when conducting an examination engagement concerning government entities. Also, there are several other instances where “attestation risk” could be used rather than “risk” to align with the verbiage in the AICPA’s AT-Cs.	7.1: ED 7.06 (<i>Application Guidance: Compliance with Standards</i>) GAO should consider addressing “attestation risk” during planning and performing the examination along with the concept of materiality. Suggest using “attestation risk” instead of “risk” where applicable, (e.g., 7.03, 7.12, 7.27, and 7.60).	7.1: In order to coincide with AICPA standards’ both the concept of materiality and consideration of attestation risk should be identified when planning and performing attestation engagements. Also, the term “attestation risk” should be used instead of “risk” to inform the auditor the type of risk that is required to be evaluated.

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N/A - DAG General Comments Examination Engagements	7.30 a., 7.36, 7.52, 7.67 a.	<p>7.30 Auditors should comply with the following documentation requirements.</p> <p>a. Before the date of the examination report, document supervisory review of the evidence that supports the findings, conclusions, and recommendations contained in the <i>audit report</i>.</p> <p>b. Document any departures from the GAGAS requirements.....</p> <p>7.36 When auditors comply with all applicable GAGAS requirements, they should include a statement in the <i>audit report</i> that they conducted the examination in accordance with GAGAS.</p> <p>7.52 Auditors should obtain and report the views of responsible officials of the audited entity concerning the findings, conclusions, and recommendations included in the <i>audit report</i>, as well as any planned corrective actions.</p> <p>7.67 Distribution of reports completed in accordance with GAGAS depends on the auditors’ relationship...distribution.</p> <p>a. Audit organizations in government entities should distribute <i>audit reports</i> to those charged with governance, to the appropriate audited entity officials...</p>	<p>7.2: The ED uses the verbiage “examination report” and “audit report” interchangeably.</p> <p>ED 7.30 a., 7.36, 7.52, and 7.67 a. make reference to the report as an “audit report.” ED 7.30 a., 7.37, 7.39, and 7.41 make reference to the report as an “examination report.”</p>	<p>7.2: Suggest revising “audit report” to “examination report” within the attestation examination section of the standards.</p>	<p>7.2: Consistent use of the verbiage “examination report” should be used throughout the standards to align with GAO’s change in rationale that attestation engagements are no longer considered audits and to align with the AICPA’s prescribed report label.</p>

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Chapter 8 – Fieldwork Standards for Performance Audits					
GAO Q9. Do these sections clearly describe ways auditors assess internal control on performance audits?	Chapter 8 Paragraphs 8.37 – 8.65	GAO Q9. In this chapter, internal control considerations are expanded to reference the 2014 <i>Standards for Internal Control in the Federal Government and Internal Control – Integrated Framework</i> . (paras. 8.37 through 8.65)	<p>No, there is opportunity to more clearly describe the ways that auditors assess internal control on performance audits. We found:</p> <p>The flow of internal control content in ED 8.37 – 8.46 may cause unnecessary confusion for implementing the requirements because, as laid out in the ED, the flow, as written, does not align with the typical, actual conduct of a performance audit and, therefore, is not conducive for achieving compliance with the related requirements. In addition to suggestions for <i>reorganization of content</i>, we provide suggestions for <i>consistent</i> use of terminology to reduce potential confusion when terminology is used in different contexts of a performance audit.</p> <p>Our suggestions are made to address the following points that we feel warrant clarification. We believe clarification of the following would then lend to better application of ED 9.25:</p> <ul style="list-style-type: none"> • The terms <i>significant</i> and <i>significance</i> (e.g. ED 8.05, 8.44), and the phrases <i>internal control significance</i> (e.g. ED 8.37-8.42), <i>...to the audit objective</i> (e.g. ED 8.38, 8.39, 8.41 8.43, 8.47-8.49, etc.), and <i>audit objectives overall</i> (e.g. ED 8.39) contribute to the lack of clarity. For example, assuming for most audit organizations that the phases of a typical performance audit include (1) overall planning of the audit giving consideration to, among other things, the overall audit purpose and subject matter, scope, and methodology; (2) execution of planned procedures to address the individual audit objectives that were formulated during the overall planning phase to support the achievement of the overall audit purpose and scope; and (3) reporting results and conclusions supported by sufficient appropriate evidence. It is unclear in the ED, with its use of the phrase <i>significance of internal controls to the audit objectives</i> (e.g. ED 8.38) whether or not it is referring to an assessment of the audit entity’s internal control system overall during the overall planning phase of the audit. An assessment at this level would be reasonable as the auditors must determine whether or not they are engaged or mandated to conclude on the effectiveness of the audit entity management’s system of internal control. If such an overall level of assessment is intended by GAO by its use of the phrase <i>internal control significance</i> (e.g. 8.37 -8.42) then auditors would be reasonable for auditors to determine the “breadth” of audit coverage necessary to achieve the purpose of the audit, for example, to report on the effectiveness of management’s internal control system. • Following the <i>highest</i> level of internal control assessment to the overall audit, described above, then by use of the ED’s next phrase, <i>significance of internal control to the audit objectives</i>, an auditor would reasonably infer that the next level of assessment of internal control should be specific to each of the audit objectives and their specific topics, individually, that were formulated to achieve the purpose of the overall audit, whether or not the purpose was defined earlier as an audit to conclude on the effectiveness of the internal control system. The second level of assessment (<i>significance of internal control to the audit objectives</i>) would occur both in the scenario, whereby, an auditor is to conclude on a broad purpose, such as, the effectiveness of the internal control system; and in the 		

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			<p>scenario, whereby, the auditor is to conclude on a non-internal-control-related purpose and provides results about internal controls that were identified as being relevant to the audit objectives that support the non-internal-control-related purpose of an audit.</p> <ul style="list-style-type: none"> Application guidance to assist in understanding the criteria that GAO expects auditors to use to identify and assess the significance for each of the levels of assessment (two are described above) would be helpful. 		
	8.38	<p>8.38 Consideration of internal control in a performance audit begins with assessing the significance of internal control to the audit objectives and documenting that assessment. Some factors that may be considered when assessing the significance of internal control to the audit objectives include</p> <ol style="list-style-type: none"> the subject matter under audit, such as the program or program component under audit, including the audited entity’s objectives for the program and associated inherent risks; the nature of findings and conclusions expected to be reported, based on the needs and interests of audit report users; the three categories of entity objectives; and the five components of internal control and the integration of the components. 	<p>8.1: ED 8.38 First, refer to the similar comment below regarding ED 8.05 as it pertains to the two potential levels for an assessment: (1) <i>overall audit in the context of the audit objectives</i> vs. (2) <i>to the audit objectives</i> [individually]. Then, consider that paragraph 8.38 implies that consideration of internal control in a performance audit <i>does not</i> begin with assessing the significance of internal control to <i>the overall audit in the context of the audit objectives</i>, but rather begins with assessing significance <i>to the audit objectives</i>. In contrast in ED 8.44, GAGAS explicitly states that the process for assessing internal control begins with obtaining and documenting an understanding of internal control that is significant to the audit [referring to the <i>overall audit in the context of the audit objectives</i>]. This contradicts 8.38 which states it begins with assessing internal control <i>to the audit objectives</i>....</p>	<p>8.1: ED 8.38 (<i>Application Guidance: Internal Control Significance Considerations</i>) Consider revising this requirement to read, “Consideration of internal control in a performance audit begins with assessing the significance of internal control to the <i>overall audit in the context of the</i> audit objectives, and documenting that assessment. Some factors that may be considered when assessing the significance of internal control to the audit objectives include...</p> <ol style="list-style-type: none"> the three categories of entity objectives^{XX}: operations, reporting, and compliance; and the five components of internal control and the integrated manner of their operation^{XY}: control environment, risk assessment, control activities, information and communication, and monitoring.” <p>Add footnotes for concepts taken from COSO and/or Green Book, for example:</p> <p>XX GAO Comptroller General of the United States, <i>Standards for Internal</i></p>	<p>8.1: Suggested revision to give distinction for the level of assessment to facilitate consistency and flow with the related paragraphs that follow. With the incorporation of COSO and Green Book guidance and terminology throughout the ED, inclusion of terminology and references to the respective guidance would aid a GAGAS user in further research and proper application of GAGAS.</p>

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				<p><i>Control in the Federal Government</i>, September 2014, OV1.01.</p> <p>XY GAO Comptroller General of the United States, <i>Standards for Internal Control in the Federal Government</i>, September 2014, OV2.04.</p>	
	8.39	<p>8.39 The significance of internal control may be assessed at various levels.</p> <p>When internal control is significant to an audit, all components of internal control are generally relevant, but not all components may be significant to the audit. Significance is first assessed for the audit objectives overall. If internal control is significant to the audit objectives overall, significance is then assessed for the five components of internal control to identify which components are significant to the audit objectives. Obtaining a broad understanding of the five components of internal control at the entity level, as discussed in paragraph 8.45, can assist auditors in performing this assessment. The assessment can also identify other areas of internal control, such as programs or processes that are significant to the audit objectives. Determining which internal controls are significant to the audit is a matter of professional judgment.</p>	<p>8.2: ED 8.39 GAGAS sets up, in the first sentence, to explain “various levels” in the sentences that follow. GAGAS explains it using the phrase <i>audit objectives overall</i>. We believe that our comments about making distinction between the two levels of assessment at ED 8.05 and ED 8.38 are relevant for ED 8.39, as well. Recall the two distinctions: (1) <i>audit overall in the context of the audit objectives</i> vs. (2) <i>as to the audit objectives</i> [individually]. It is not clear if the phrase in ED 8.39, <i>audit objectives overall</i>, is intended to mean the same thing as the <i>audit overall in the context of audit objectives</i>, as we describe in our comments to ED 8.05 and ED 8.38.</p>	<p>8.2: ED 8.39 (<i>Application Guidance: Internal Control Significance Considerations</i>) Consider: Deleting the first sentence. And revising as follows:</p> <p>8.39 When internal control is significant to an audit, all components of internal control are generally relevant, but not all components may be significant to the audit. Significance is first assessed for the audit overall in the context of the audit objectives. If internal control is significant to the audit overall, significance is then assessed for the five components of internal control to identify which components are significant to the audit objectives.</p>	<p>8.2: Suggested revision to give consistent description for the level of assessment being referred to. Clarity will facilitate proper interpretation of requirements and guidance.</p>

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	8.40	8.40 Assessing the significance of internal control may be an iterative process. As discussed in paragraphs 8.08 and 8.09, the audit objectives can evolve and become more refined throughout the audit. When this occurs, the significance of internal control is assessed for the new or revised objectives.	8.3: ED 8.40 It is not explicitly indicated that any iterative assessments be documented in addition to initial assessments.	8.3: ED 8.40 (<i>Application Guidance: Internal Control Significance Considerations</i>) Consider: Assessing the...throughout the audit. When this occurs, the significance of internal control is assessed and documented for the new or revised objectives.	8.3: Suggested revision to reinforce the necessity to document the assessment for new or revised objectives such as when internal controls that are significant to audit objectives have evolved.
	8.41	8.41 1. The assessment of the significance of internal control may be documented in formats such as narratives or tables. 2. The documentation includes the conclusions on whether internal control is significant to the overall audit objectives, and if so, which components of internal control are significant to the audit objectives. 3. The documentation may also include the factors considered and steps taken to perform the assessment.	8.4: ED 8.41 Our comment contains three parts. 1. The documentation formats included fail to mention flowcharts, which were mentioned in paragraph ED 8.44. 2. The distinction for the level of assessment of I/C is not clear for whether GAGAS is referring to (1) <i>the overall audit in the context of the audit objectives</i> , or (2) <i>to each audit objective</i> . We note that in ED 8.42, GAGAS refers to the broader level of assessment, and then in ED 8.43 GAGAS drops down to the audit objective level. 3. The last sentence uses “may” which could result in inadequate or insufficient documentation when it is a requirement to document.	8.4: ED 8.41 (<i>Application Guidance: Internal Control Significance Considerations</i>) Consider: 1. The assessment of the significance of internal control may be documented in formats such as narratives, tables, or flowcharts. Consider: 2. The documentation includes the conclusions on whether internal control is significant to the overall audit in the context of the audit objectives, and if so, which components of internal control are significant to the audit objectives. Consider: 3. Effective documentation includes the factors considered and steps taken in performing the assessment.	8.4: Suggestions for revision are for the purposes of consistency and clarity.
	8.44	8.44 The process for assessing internal control begins with obtaining and documenting an understanding of internal control that is significant to the	8.5: See comments at ED 8.05 and ED 8.38.	8.5: 8.44 (<i>Application Guidance: Obtaining an Understanding of Internal Control Considerations</i>) Consider: The process for assessing internal control	8.5: Suggestions for revision are for the purposes of consistency and clarity.

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		audit. This generally occurs ... documented in formats such as narratives, tables, or flowcharts.		begins with obtaining and documenting an understanding of internal control that is significant to the overall audit in the context of the audit objectives.	
	8.45	<p>8.45 Approaches for obtaining an understanding of internal control may vary and may include consideration of entity-level controls, transaction-level controls, or both. However, even when assessing only transaction-level controls, it may be beneficial to gain an understanding of entity-level controls that may affect transaction-level controls by obtaining a broad understanding of the five components of internal control at the entity level. ...understanding of internal control at the transaction level for the specific programs and processes under audit.</p>	<p>8.6: ED 8.45 With the incorporation of COSO and Green Book guidance and terminology throughout the ED, inclusion of terminology and references to the respective guidance would aid a GAGAS user in further research and proper application of GAGAS.</p>	<p>8.6: ED 8.45 (<i>Application Guidance: Obtaining an Understanding of Internal Control Considerations</i>) Consider: adding the following definitions from Green Book:</p> <p>Entity-level controls are controls that have a pervasive effect on an entity’s internal control system and may pertain to multiple components. Entity-level controls may include controls related to the entity’s risk assessment process, control environment, service organizations, management override, and monitoring.^{xx} (10.09)</p> <p>Transaction control activities are actions built directly into operational processes to support the entity in achieving its objectives and addressing related risks. “Transactions” tends to be associated with financial processes (e.g., payables transactions), while “activities” is more generally applied to operational or compliance processes. For the purposes of this standard, “transactions” covers both definitions. Management may design a variety of transaction control activities for operational processes, which may include verifications, reconciliations,</p>	<p>8.6: Absent the definition for terms used in the GAGAS requirements and guidance, there is risk for inadvertent misinterpretation and application by a GAGAS user.</p>

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				authorizations and approvals, physical control activities, and supervisory control activities. ^{XX} (10.10) Add footnotes for concepts taken from COSO and/or Green Book, for example: XX GAO Comptroller General of the United States, Standards for Internal Control in the Federal Government, September 2014, 10.09. XY GAO Comptroller General of the United States, Standards for Internal Control in the Federal Government, September 2014, 10.10.	
	8.48	8.48 The auditors’ understanding of internal control provides a basis for determining the nature, timing, and extent of procedures for assessing the effectiveness of internal control, if such an assessment will be performed. Assessing the effectiveness of internal control in a performance audit involves assessing the design; the design and implementation; or the design, implementation, and operating effectiveness of controls that are significant to the audit objectives.	8.7: ED 8.48 (<i>Application Guidance: Accessing Internal Control</i>) should simplify application guidance by including the assessment of the design, implementation, and operating effectiveness of controls significant to the audit objectives.	8.7: Consider revising ED 8.48 to include “Assessing the effectiveness of internal control in a performance audit involves assessing the design, implementation, and operating effectiveness of controls that are significant to the audit objectives.”	8.7: Including the assessment of the internal control that are significant to the audit objectives involves assessing the design, implementation, and operating effectiveness together to determine if any weaknesses exist. This would also coincide with the application guidance within ED 8.50.
	8.50	8.50 The design of internal control is assessed by determining whether controls individually and in combination	8.8: ED 8.50 There is a lot of information in this paragraph, so we suggest separating <i>design and implement</i> from <i>operating effectiveness</i>	8.8: ED 8.50 (<i>Application Guidance: Assessing Internal Control</i>) Consider: The design of internal control is assessed by	8.8: Suggested revision to enhance comprehension of the guidance.

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		<p>are capable of achieving an objective and addressing the related risk. The implementation of internal control is assessed by determining if the control exists and has been placed into operation.</p> <p>The operating effectiveness of internal control is assessed by determining whether controls were applied at relevant times during the period under evaluation, the consistency with which they were applied, and by whom or by what means they were applied. A control cannot be effectively implemented if it was not effectively designed. A control cannot be operating effectively if it was not effectively designed and implemented.</p>	<p>considerations into two paragraphs rather than one. And, to keep thoughts parallel in the order of the content, we added the description of a deficiency in design similar for language in GB OV3.05 and footnoted references to GB.</p>	<p>determining whether controls individually and in combination are capable of achieving an objective and addressing the related risk. A deficiency in design exists when a control necessary to meet a control objective is missing or an existing control is not properly designed so that even if the control operates as designed, the control objective would not be met. The implementation of internal control is assessed by determining if the control exists and has been placed into operation. A control cannot be effectively implemented if it was not effectively designed. A deficiency in implementation exists when a properly designed control is not implemented correctly in the internal control system.^{XX}</p> <p>[Insert paragraph break]</p> <p>The operating effectiveness of internal control is assessed by determining whether controls were applied at relevant times during the period under evaluation, the consistency with which they were applied, and by whom or by what means they were applied. A control cannot be operating effectively if it was not effectively designed and implemented.^{XY}</p> <p>Add footnotes for concepts taken from COSO and/or Green Book, for example:</p>	

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				XX GAO Comptroller General of the United States, Standards for Internal Control in the Federal Government, September 2014, OV3.05. XY GAO Comptroller General of the United States, Standards for Internal Control in the Federal Government, September 2014, OV3.06.	
N/A - DAG General Comments	8.02	8.02 The fieldwork requirements for performance audits relate to planning the audit; supervising staff; obtaining sufficient, appropriate evidence; and preparing audit documentation. The concepts of evidence, significance, and audit risk form a framework for applying these requirements and are included throughout the discussion of performance audits.	8.9: ED 8.02 The GAGAS ED uses the term “evidence” to replace the 2011 term “reasonable assurance.” It is not clear if this is a typographical error in the ED. Reasonable assurance is more conceptual than evidence.	8.9: ED 8.02 (<i>Chapter 8: Fieldwork Standards for Performance Audits</i>) Consider: “...The concepts of reasonable assurance, significance, and audit risk form a framework...”	8.9: Suggested revision to ensure the accuracy of the GAO’s discussion about “concepts.”
N/A - DAG General Comments Planning	8.04	8.04 Auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to obtain reasonable assurance to support their findings and conclusions	8.10: ED 8.04 Content does not give description of the context for an “appropriate level” of audit risk.	8.10: ED 8.04 (<i>Requirements: General</i>) Consider: Auditors must plan the audit to reduce audit risk to an appropriate level, one that provides reasonable assurance that findings and conclusions will be supported by sufficient appropriate evidence obtained through executing the audit plan.	8.10: Suggested revision to facilitate understanding of the requirement.
N/A - DAG General Comments Planning	8.05	8.05 In planning the audit, auditors should assess significance and audit risk. Auditors should apply these assessments to establish the scope and methodology for addressing the audit objectives.	8.11: ED 8.05 Being first with regard to other paragraphs that include discussion about assessing significance and audit risk, it would be helpful if it were clearer as to the context of the <i>level</i> of assessments being referred to. This	8.11: ED 8.05 (<i>Requirements: General</i>) Consider: In planning the audit, auditors should assess significance and audit risk for the audit overall in the context of the audit objectives.	8.11: Suggested revision is for the purpose of adding clarity by giving clear distinction for the context of the level of <i>assessment of significance and audit risk</i> being referred to in the paragraph. Establishing distinction

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		Planning is a continuous process throughout the audit.	comment is about the <i>level of assessment</i> , not so much significance and audit risk. In other words, in 8.05, it is not clear whether the GAO intends the assessments (1) broadly, as applicable to the <i>overall audit in the context of the audit objectives</i> , or more specifically (2) <i>to each audit objective</i> , individually. In contrast, for example, the ED paragraph 8.37 about internal control assessments, specifically indicates the context whereby auditors should document the significance of internal control <i>to the audit objectives</i> . Refer to the similar comment at ED 8.38.		in the first of several paragraphs avoids unintended ambiguity among the paragraphs that follow, in so far as whether the requirement and/or guidance is referring to the <i>overall audit in the context of the audit objectives</i> , or <i>to each audit objective</i> (individually).
N/A - DAG General Comments Planning	8.08	8.08 The audit objectives The term program is used in GAGAS to include processes, projects, studies, policies, operations, activities, entities, and functions.	8.12: ED 8.08 This is the first paragraph in the ED that defines <i>program</i> . However, there is redundancy in subsequent paragraphs ED 8.19 and ED 8.117 for the repetition of the definition.	8.12: ED 8.08 (<i>Application Guidance: General</i>) Remove repeat definitions of the term <i>program</i> in ED 8.19 and ED 8.117. Or , place the term once in the glossary of terms section and eliminate the definition in ED 8.08, ED 8.19 and ED 8.117.	8.12: Suggestion is for the purpose of removing redundancy.
N/A - DAG General Comments Planning	8.14	8.14 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	8.13: ED 8.14 The paragraph appears to have been added to explain one difference between a performance audit and an attestation examination engagement. While an <i>assertion about the subject matter</i> is not necessary given the nature of the performance audit, auditors can expect that management will likely assert to information (make representations) it provides during the conduct of the performance audit. As such, auditors should be clear that any testimonial level evidence in the form of representations asserted by management should	8.13: ED 8.14 (<i>Application Guidance: General</i>) In performance audits...matter. GAGAS does not require auditors to obtain a <i>management assertion about the subject matter</i> when conducting a performance audit.	8.13: Suggestion is for the purpose of clarifying the context of the paragraph to avoid inadvertent misinterpretation of requirements.

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		assertions with respect to the subject matter when conducting a performance audit.	not be dismissed for meeting the evidence related requirements.		
N/A - DAG General Comments Planning	8.17	8.17 Criteria identify the required or desired state or expectation with respect to the program or operation. Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations in the report. Suitable criteria are relevant, reliable, objective, and understandable and do not result in the omission of significant information, as applicable, within the context of the audit objectives. The relative importance of each of these characteristics to a particular engagement is a matter of professional judgment. In instances where such things as laws, regulations, and policies prescribe the criteria to be used for the engagement, such criteria are presumed to be suitable in the absence of indications to the contrary.	8.14: ED 8.17 The information about suitable criteria in the paragraph provides for the risk of omitted information but not for the risk of providing extraneous information.	8.14: ED 8.17 (<i>Application Guidance: General</i>) Criteria identify Suitable criteria are relevant, reliable, objective, and understandable and do not result in the omission of significant information as applicable within the context of the audit objectives, or the inclusion of extraneous information having potential implication beyond the context of the audit objectives. The relative....	8.14: Suggested revision to expound upon the description of suitable criteria.
N/A - DAG General Comments Planning	8.18	8.18 Examples of criteria include a. laws and regulations applicable to the operation of the audited entity; b. goals, policies, and procedures established by officials of the audited entity; c. technically developed standards or norms; d. expert opinions;	8.15: ED 8.18 Potential misunderstanding for the absence of context (specific to the audit objectives).	8.15: ED 8.18 (<i>Application Guidance: General</i>) Examples of criteria include a. – h. The auditor selects suitable criteria considering those applicable to the audit objectives rather than all laws and regulations, goals, opinions, practices, and such. For example, all laws and regulations to which a program is subject may not apply to the audit objectives. The	8.15: Suggested revision to clarify the context with which consideration must be given to criteria. Providing more criterion than necessary to achieve the audit objectives risks the placement of more than intended reliance by users on results and conclusions.

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		e. prior periods’ performance; f. defined business practices; g. contracts or grant agreements; and h. benchmarks against which performance is compared, including performance of other entities or sectors.		auditor would select those specifically applicable.	
N/A - DAG General Comments Planning	8.20	<p>8.20 Auditors should communicate an overview of the objectives, scope, and methodology and the timing of the performance audit and planned reporting (including any potential restrictions on the report), unless doing so could significantly impair the auditors’ ability to obtain sufficient, appropriate evidence to address the audit objectives. Auditors should communicate such information with the following parties, as applicable:</p> <p>d. the cognizant legislative committee, when auditors conduct the audit pursuant to a law or regulation, or they conduct the work for the legislative committee that has oversight of the audited entity.</p>	<p>8.16: ED 8.20 - The Commonwealth of Pennsylvania has laws that are nearly a century old that provide our department with the authority to audit over 500 local education agencies (e.g. school districts) and over 3000 municipal pension plans that receive state funds, many of which are conducted as performance audits. These audits are conducted on a cyclical basis.</p> <p>For consistency with financial audit standards (ED 6.06) and attestation engagement standards (ED 7.09), communication to the cognizant legislative committee should be limited to situations in which the law or regulation requiring an audit specifically identifies the entities to be audited.</p>	<p>8.16: ED 8.20 (<i>Requirements: Auditor Communication</i>) GAO should revise the communication requirement re: cognizant legislative committee to be consistent with the applicability of entities “specifically identified” in ED 6.06 & ED 7.09.</p>	<p>8.16: Requirements applicable across the different types of engagements should be consistent, when feasible.</p>
N/A - DAG General Comments Planning	8.25	<p>8.25 Reporting to those charged with governance or management may include reporting potential deficiencies in internal control; fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements; waste; or abuse. Early communication of these matters may be important because of their relative significance and the</p>	<p>8.17: ED 8.25 The addition of the word “potential” increases the spectrum of what may be reported and communicated concerning <i>deficiencies in internal control; fraud; noncompliance with provisions of laws, regulations, contracts, and grant agreements; waste; or abuse</i>. Expectation is that an audit will produce results concerning, among other results, actual deficiencies and not “potential”</p>	<p>8.17: ED 8.25 (<i>Application Guidance: Auditor Communication</i>) At a minimum, an auditor’s decision to report “potential” deficiencies should be supported by specific planning-level understanding with the auditee concerning expectations for potential during the audit and the limited nature of any results that would include “potential” deficiencies. Audit effort and</p>	<p>8.17: Suggestion to eliminate “potential” or otherwise enhance requirements and guidance related to audits that include “potential” deficiencies.</p>

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		urgency for corrective follow-up action. Further, early communication is important to allow management to take prompt corrective action to prevent further noncompliance when a control deficiency results in potential instances of the following: noncompliance with provisions of laws, regulations, contracts, and grant agreements or fraud, waste, or abuse. When a deficiency is communicated early, the reporting requirements and application guidance in paragraphs 9.24 through 9.35 still apply.	ones. In the absence of specific reporting and communication language pertaining to “potential” deficiencies, misinterpretation is possible between auditors, management, and those charged with governance (users).	reporting should be driven by specific requirements related to “potential” deficiencies in order to avoid confusion and misinterpretation given the general understanding and expectation for auditing that includes actual deficiencies.	
N/A - DAG General Comments Planning	8.29	8.29 Audit management should assign sufficient staff with adequate collective professional competence, as described in paragraphs 4.02 through 4.14, to conduct the audit. Staffing an audit includes, among other things, a. assigning staff with the collective knowledge, skills, and experience appropriate for the audit; b. assigning a sufficient number of staff to the audit; c. providing for on-the-job training of staff; and d. engaging specialists when necessary.	8.18: ED 8.29 As written, the use of “staff” in the requirement could be interpreted differently. Clarification of the requirement would assist with proper implementation.	8.18: ED 8.29 (<i>Requirements: Assigning Staff</i>) Consider: Audit management should assign a sufficient number of competent staff to the audit team to ensure that collectively, the team possesses adequate professional competence, as described in paragraphs 4.02 through 4.14, to conduct the audit. Staffing the audit team includes, among other things a.-d.	8.18: Suggestion for clarity.
N/A - DAG General Comments Conducting the Engagement	8.36	8.36 Obtaining an understanding of the program under audit helps auditors to assess the relevant risks associated with the program and the effect of the risks on the audit objectives, scope, and	8.19: ED 8.36 This is the first location in the ED whereby internal control language from COSO and/or Green Book is incorporated. For example, paragraph 8.36c appears to be from Section I, OV1.01 and OV1.03 of the Green	8.19: ED 8.36 (<i>Application Guidance: Nature & Profile of the Program and User Needs</i>) It would be helpful to a GAGAS user, if references to the specific internal control concepts from COSO/Green Book	8.19: Suggestion is made for a GAGAS user’s ease of research concerning concepts related to internal controls. COSO and Green Book research facilitates better understanding of internal control concepts

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		<p>methodology. ...as will the need to understand individual aspects of the program, such as the following: a., b, c. 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. ...d.-g.</p>	<p>Book. The terminology and guidance from COSO and Green Book adds value to understanding the GAGAS internal control requirements and guidance</p>	<p>are included at applicable GAGAS paragraphs, perhaps in a footnote. Consider: c. 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.^{XX} Internal control comprises the plans, methods, policies, and procedures used to fulfill the mission, strategic plan, goals, and objectives of the entity.^{XX}</p> <p>Add footnotes for concepts taken from COSO and/or Green Book, for example:</p> <p>XX GAO Comptroller General of the United States, <i>Standards for Internal Control in the Federal Government</i>, September 2014, OV1.01.</p> <p>XX GAO Comptroller General of the United States, <i>Standards for Internal Control in the Federal Government</i>, September 2014, OV1.03.</p>	<p>used by audit entity management, and thus proper application of GAGAS by the auditor.</p>
Chapter 9 – Reporting Standards for Performance Audits					
N/A - DAG General Comments Report Content	9.24	<p>9.24 When internal control is significant within the context of the audit objectives, auditors should include in the audit report (1) the scope of their work on internal control, <i>including how the auditors considered the concept of accountability for use of public</i></p>	<p>9.1: ED 9.24 Standard expanded to require auditors to include in the audit report discussion how they considered the concept of accountability for use of public resources and govt. authority while assessing audit risk associated with I/C.</p>	<p>9.1: ED 9.24 (<i>Requirement: Reporting on Internal Control</i>) Consider adding application guidance and examples.</p>	<p>9.1: Facilitate compliance with the requirement.</p>

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		<p><i>resources and government authority while assessing audit risk associated with internal control, and (2) any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed. When auditors detect deficiencies..... written communication in the audit report.</i></p>			
<p>N/A – DAG General Comments Report Content</p>	<p>9.25</p>	<p>9.25 If internal control that is significant to the audit objectives does not include all internal control components and underlying principles, the auditors should indicate in their report that the audit did not consider all internal control components, and that if it had, deficiencies may have been identified that could impair the effectiveness of the controls evaluated as part of the audit. This could occur, for example, in an audit where only the control activities component of internal control or only certain control activities are significant to the audit objectives, and deficiencies in the other components or controls that are not significant to the audit objectives could impair the effectiveness of the control activities.</p>	<p>9.2: ED 9.25 Green Book provides that controls must work together in an integrated manner to for internal control to be considered effective.</p>	<p>9.2: ED 9.25 (<i>Requirement: Reporting on Internal Control</i>) Consider application guidance and examples describing compliance with the 9.25 requirement including a conclusion on effectiveness.</p>	<p>9.2: Facilitate compliance with the requirement.</p>
<p>N/A – DAG General Comments Report Content</p>	<p>9.33</p>	<p>9.33 Auditors should communicate findings in writing to audited entity officials when the auditors detect <i>potential</i> instances of fraud, waste, or</p>	<p>9.3: ED 9.33 The addition of the word “potential” increases the spectrum of what may be reported and communicated concerning <i>fraud; waste; or abuse</i>. Expectation is that an</p>	<p>9.3: ED 9.33 (<i>Requirements: Reporting on Instances of Fraud, Waste, or Abuse</i>) At a minimum, an auditor’s decision to report “potential” fraud, waste, or abuse should</p>	<p>9.3: Suggestion to eliminate “potential” or otherwise enhance requirements and guidance related to audits that include “potential” instances.</p>

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		abuse that are not significant within the context of the audit objectives but warrant the attention of those charged with governance.	audit will produce results concerning, among other results, actual instances and not “potential” ones. In the absence of specific reporting and communication language pertaining to “potential” instances, misinterpretation is possible between auditors, management, and those charged with governance (users).	be supported by specific planning-level understanding with the auditee concerning expectations for potential instances during the audit and the limited nature of any results that would include “potential” instances. Audit effort and reporting should be driven by specific requirements related to “potential” instances in order to avoid confusion and misinterpretation given the general understanding and expectation for auditing that includes actual fraud, waste, or abuse.	
N/A – DAG General Comments Report Content	9.27 – 9.36	Multiple citations.	9.4: ED 9.27-9.36 (<i>Reporting on Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements and Reporting on Instances of Fraud, Waste or Abuse</i>) contain redundant language in both their requirements and application guidance sections.	9.4: Consider restricting both the requirements and application guidance to present redundant information only once.	9.4: The change of combining these requirements and application guidance would remain consistent with other sections of the ED since this content appears together and it avoids duplication.