



KPMG LLP
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

July 6, 2017

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

RE: Proposed Changes to *Government Auditing Standards*

Dear Mr. Dalkin:

We appreciate the opportunity to respond to the U.S. Government Accountability Office's (GAO) 2017 Exposure Draft, *Government Auditing Standards* (GAGAS). We believe that the reorganization of GAGAS to clearly distinguish requirements and application guidance will be very helpful for auditors.

Our letter presents our significant comments followed by other comments. Appendix I includes wording clarifications and editorial notes.

Significant Comments

1 GAGAS Qualification

The GAGAS Qualification imposes a requirement for four hours of CPE in GAGAS topics. We believe that the requirement for all members of the engagement team to obtain four hours of training in GAGAS will create a significant burden for the profession without a corresponding benefit. For example, a global engagement team with 100 auditors will need to obtain 400 hours of training just in GAGAS. The basic responsibilities of most of the auditors on the engagement team do not change with the audit being performed in accordance with GAGAS. We recommend that the GAGAS qualification requirement be limited to "partners and directors" (as that term is defined in paragraph 4.10c) as these individuals direct the activities of the engagement team and their responsibilities are most affected by the incremental GAGAS requirements.

We recommend that the remaining engagement team members in "entry level" and "supervisory" roles solely need to maintain their professional competence as described in paragraph 4.18.

We recommend that GAO revise paragraph 4.15 as follows:

~~"Auditors assigned to partner or director roles 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. 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~~

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~~work on their first GAGAS engagement. Entry-level staff should obtain GAGAS Qualification by the end of their first full 2-year CPE period.”~~

We also strongly recommend that GAO provide sufficient time between the GAGAS publication date and the effective date to allow the profession to develop and attend appropriate training.

2 Definition of Nonaudit Services

The extant definition of nonaudit services is “professional services other than audits or attestation engagements.” Paragraph 1.22 of the exposure draft changes the definition of nonaudit services to “professional services provided on behalf of management at audited entities.” We believe several issues arise from this proposed change in the definition of nonaudit services.

The phrase “on behalf of management” is commonly understood to mean “acting for management.” In general, we believe that services performed “on behalf of management” of an audit client would indicate potential prohibited management responsibilities. Further, if an auditor is acting for management, we believe that paragraph 3.69 would indicate that the auditor’s independence is impaired.

Assuming that we were able to overcome the concern in the previous paragraph, including the phrase “at audited entities” implies that when we are engaged by an audit client to provide services at a third party that is not an audit client, such services are not nonaudit services for the engaging party. As an example, monitoring services provided for an audit client at a third party would not be considered a nonaudit service under the proposed definition and as such would not require an evaluation of independence.

Unless these outcomes were GAO’s intent, we believe the extant definition should not be changed.

We believe that GAO was intending to address circumstances where an auditor is asked by a third party to perform services at an audit client such as an investigation. Under those circumstances, we understand that there has been confusion about fulfilling the extant requirement for evaluating the skills, knowledge, and experience of management, and obtaining oversight by management. We suggest that GAO consider that, in those circumstances, the management role is fulfilled by the engaging party and does not need to be overseen by the audit client. In investigative and compliance services, the work done at the audit client is work done on them and not for them.

Other Comments

Chapter 1: Government Auditing: Foundation and Principles for the Use and Application of Generally Accepted Government Auditing Standards

Types of GAGAS Engagements

- 3 Paragraph 1.18. We believe the use of “conclusion” in this paragraph is misleading because auditors do not reach a conclusion in agreed-upon procedures engagements, and we recommend that GAO delete the sentence that states: “The auditors’ conclusion addresses whether the results of that measurement or evaluation are free from material misstatement.”
- 4 Paragraph 1.23. We recommend that GAO create a separate glossary to contain the definitions of all terms that are used broadly in GAGAS. We believe that the list in this paragraph is incomplete and not intuitive to locate. Inclusion of a separate and complete glossary would assist auditors in applying GAGAS. We recognize that the terms defined in paragraphs before 1.23 are needed in Chapter 1 to introduce GAGAS and its applicability; however, we recommend that GAO also

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include those terms in a separate glossary. In addition, we recommend that GAO use bold-type throughout GAGAS for defined terms. See Appendix III for a suggested glossary.

Chapter 2: General Requirements for Complying with *Government Auditing Standards*

Complying with GAGAS

- 5 Paragraph 2.16. This paragraph indicates that the auditor should cite compliance with GAGAS in the auditors' report. The application of this paragraph is problematic when the auditors' report is a disclaimer of opinion. We recommend that GAO provide an additional requirement, as paragraph 2.16c, specific to disclaimers. We recommend the following language:

c. Modified GAGAS compliance statement when disclaiming on opinion: Stating that the auditors were engaged to conduct the audit in accordance with GAGAS.

Chapter 3: Ethics, Independence, and Professional Judgment

- 6 We support the revised approach for ethics and independence to include ethical principles, requirements and application guidance, and we believe this will clarify independence objectives and requirements for users. We suggest GAO consider reorganizing some of this guidance. For example, application guidance relative to providing nonaudit services is contained in the section on applying the conceptual framework. Similarly, application guidance related to requirements for using the conceptual framework is included in the section for providing nonaudit services. Accordingly, we recommend that GAO map application guidance to requirements and reorganize the flow of Chapter 3 to provide a more organized approach for users.
- 7 We believe that additional sub-headers to separate application guidance for governmental organizations would be very helpful for users to determine when specific application guidance is relevant to their circumstance. A number of paragraphs specific to governmental organizations, such as paragraphs 3.25 and 3.53, are under the general application guidance sub-header. We recommend that the paragraphs with applicability limited to government auditors be labeled as such.

Independence

- 8 The extant and proposed conceptual frameworks require the auditor to consider threats to independence and then to consider whether there are prohibitions under GAGAS. We believe the order should be reversed and auditors should consider prohibitions first because there are no safeguards sufficient to mitigate threats for prohibited activities to an acceptable level.
- 9 In certain sections of the chapter, GAGAS requires independence of individual auditors and/or the engagement team. We believe the intent is that individual auditors and audit organizations are required to be independent under GAGAS. We recommend that GAO avoid using the term *engagement team* when applying independence to individual auditors. See paragraphs 3.21 and 3.61.
- 10 Paragraph 3.18. This paragraph requires individual auditors and audit organizations to be independent but it does not define the entity to which independence is required. Based on paragraph 3.07, the ethical principles would require independence of both the responsible party and the engaging party. We recommend that GAO revise paragraphs 3.07 and 3.18 to resolve this conflict as follows: [Added text underlined; deleted text struck-through.]

“3.07 Except for application of the independence requirements as defined in paragraph 3.18, All fundamental ethical principles apply to the relationship between the auditors

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and the engaging party, even if that party is not the responsible party. Independence is required of the responsible party and not the engaging party.

3.18 In all matters relating to the audit work, the individual auditors and audit organizations must be independent of the responsible party during the period of the professional engagement.”

- 11 Paragraph 3.23. This paragraph requires that an auditor be independent through the period of professional engagement. Paragraph 3.79, which is application guidance, provides an exception to the requirement. We do not believe that application guidance can provide an exception to a requirement and we recommend that GAO relocate the italicized text from paragraph 3.79 to paragraph 3.23 as follows:

Paragraph 3.23. “The period of professional engagement begins when the auditors either sign an initial engagement letter or other agreement to conduct an engagement or begin to conduct an engagement, whichever is earlier. The period lasts for the duration of the professional relationship—which, for recurring engagements, could cover many periods—and ends with the formal or informal notification, either by the auditors or the audited entity, of the termination of the professional relationship or with the issuance of a report, whichever is later. Accordingly, the period of professional engagement does not necessarily end with the issuance of a report and recommence with the beginning of the following year’s engagement or a subsequent engagement with a similar objective.

For financial statement audits and examination or review engagements, a nonaudit service otherwise prohibited by GAGAS and provided during the period covered by the financial statements may not threaten auditors’ independence with respect to those financial statements provided that the following conditions exist:

- a. the nonaudit service was provided prior to the period of professional engagement;*
- b. the nonaudit service related only to periods prior to the period covered by the financial statements; and*
- c. the financial statements for the period to which the nonaudit service did relate were audited by other auditors (or in the case of an examination or review engagement, examined, reviewed, or audited by other auditors as appropriate).”*

Paragraph 3.79 “For performance audits and agreed-upon procedures engagements, nonaudit services that are otherwise prohibited by GAGAS may be provided when such services do not relate to the specific subject matter of the engagement. ~~*For financial statement audits and examination or review engagements, a nonaudit service otherwise prohibited by GAGAS and provided during the period covered by the financial statements may not threaten auditors’ independence with respect to those financial statements provided that the following conditions exist:*~~

- ~~*a. the nonaudit service was provided prior to the period of professional engagement;*~~
- ~~*b. the nonaudit service related only to periods prior to the period covered by the financial statements; and*~~
- ~~*c. the financial statements for the period to which the nonaudit service did relate were audited by other auditors (or in the case of an examination or review engagement, examined, reviewed, or audited by other auditors as appropriate).”*~~

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- 12 Paragraph 3.30. This paragraph requires the engagement team to assess the independence of specialists. We believe that this is application guidance related to further defining individual auditors for purposes of independence, and we recommend that GAO move this paragraph to the Application Guidance: General section.

Furthermore, we recommend that GAO clarify that external specialists should be required to be objective with respect to the audit engagement. Both the AICPA Code and the IESBA Code specifically exclude external specialists engaged by the audit organization from the definition of engagement team. Those standards indicate that objectivity is the appropriate standard to hold external specialists to as they are unlikely to influence the audit engagements therefore eliminating the need for additional safeguards. We suggest that GAO conform requirements for external specialists with the AICPA and IESBA standards.

- 13 Paragraphs 3.32 and 3.38. Paragraph 3.32 requires an auditor to terminate an engagement in process when independence is impaired, and paragraph 3.38 requires an auditor to retract an issued report when an engagement has been completed and an independence impairment is later identified.

Both the IESBA Code of Ethics for Professional Accountants (100.10; 290 and 291) and the AICPA Code of Professional Conduct (ET 1.298) provide for a process to evaluate breaches of the independence standards. In many cases, withdrawal from a current audit engagement or retraction of previously issued financial statements is not warranted for less significant breaches of the standards. In those circumstances the auditee and the auditor may conclude that integrity and objectivity in the performance of the audit was not impaired. The extant and proposed GAO independence requirements appear to require withdrawal and/or retraction as applicable when any independence violation occurs. We suggest that GAO consider adopting a breaches provision that allows the auditee and the auditor to consider the significance of the breach to determine the necessary actions.

In addition, the requirement to address violations of independence standards at paragraph 3.38 requires the auditor to determine whether additional procedures are necessary. However, we believe that additional audit work will not remediate an independence violation and we recommend that GAO remove the following sentence from this requirement: “The auditors should then determine whether to perform the additional audit work necessary to reissue the report, including any revised findings or conclusions, or to repost the original report if the additional audit work does not result in a change in findings or conclusions.”

- 14 Paragraphs 3.54 through 3.57. We believe these paragraphs are requirements for being independent rather than safeguards to mitigate threats to independence. We recommend that GAO place these paragraphs within the *Requirements: General* section and, accordingly, replace the word “may” as used in paragraph 3.54 with either “must” or “should”.

- 15 Paragraphs 3.59 and 3.60. It is unclear whether or not these paragraphs are limited to internal auditors in governmental entities, and we recommend that GAO clarify its intent. We recommend that GAO use sub-headings similar to those used for auditors in government.

- 16 Paragraph 3.63. This paragraph provides application guidance about safeguards when complying with the conceptual framework. The paragraph also references safeguards specific to performing non-audit services, many of which would not be relevant for threats that may exist for other relationships or circumstances. We suggest modifying the paragraph as follows: [Added text underlined; deleted text struck-through; italicized text relocated from within paragraph.]

~~“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.~~

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~~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 e~~ 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. *In some cases, multiple safeguards may be necessary to address a threat.*”

17 Paragraph 3.80. This paragraph is not clear to us, and we suggest that it can be deleted. See our earlier comment on the definition of nonaudit services in paragraph 1.22. If GAO retains a version of this paragraph, we recommend that this be application guidance for all auditors, not just auditors in government.

18 Paragraph 3.89. This paragraph requires that auditors conclude that any services related to preparing accounting records and financial statements create significant threats to independence. We believe that this conclusion by GAO does not reflect the continuum of services that can be provided related to preparing accounting records and financial statements.

Services that might be provided where significant threats may not exist include:

- Word processing assistance related to financial statement preparation;
- Assistance in drafting a single note disclosure for a new accounting pronouncement;
- Preparing account reconciliations for immaterial accounts; and
- Posting of journal entries that have been approved by the entity’s management for a brief period of time.

We understand that depending on the circumstances, particularly when the auditor performs multiple non-audit services for an audited entity, the threats created could be significant but in such cases, the auditor should use professional judgment to evaluate the threats using the conceptual framework. This would be consistent with the AICPA Code of Professional Conduct and the IESBA Code of Ethics for Professional Accountants (for non-Public Interest Entities) and recognizes that when evaluating threats under the conceptual framework, the auditor must consider the nature and breadth of services to be performed. Under the GAO proposal, preparing one bank account reconciliation for an audited entity would result in a significant threat to independence and require the auditor to implement unnecessary safeguards that could lead to a less efficient and more costly engagement. That result seems inconsistent with the conceptual framework approach.

Also, typical safeguards that are available to mitigate significant threats would include separate engagement teams and/or review by a third party otherwise not involved with the engagement. Such safeguards are often not available to small audit organizations. The outcome of the proposed requirement could be that small firms may no longer be able to provide these services even when threats are not significant.

We believe that the conceptual framework provides a meaningful process for auditors to apply professional judgement. As a result, we believe that this paragraph should be moved to application guidance and propose the following edits: [Added text underlined; deleted text struck-through.]

~~“Auditors should conclude that any s~~Services related to preparing accounting records and financial statements, other than those defined as impairments to independence in paragraph 3.88, may create significant threats to auditors’ independence, ~~and~~. If so,

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auditors should document the threats and safeguards applied to eliminate and reduce threats to an acceptable level or decline to perform the services as required by the conceptual framework. These services include...”

19. Paragraph 3.94. We believe this paragraph, as a requirement, is duplicative of the conceptual framework and we recommend that GAO move this to application guidance, with the following edits: [Added text underlined; deleted text struck-through.]

“Separate evaluations...would impair independence. ~~However, in all such cases, auditors should evaluate the significance of the threat created by performing separate evaluations and apply safeguards when necessary to eliminate the threat or reduce it to an acceptable level.~~ A When applying the conceptual framework, auditors should assess the frequency...of the threat.”

20. Paragraph 3.95. We believe it is unclear whether GAO intends for this paragraph to be a performance consideration instead of independence guidance, and we recommend that GAO revise the paragraph accordingly.

Chapter 4: Competence and Continuing Professional Education

Competence

21. Paragraph 4.14. We do not believe that an auditor’s prior use of a specialist’s work contributes to an assessment of competence and professional qualifications; rather we believe that a prior assessment of the specialist’s competence and qualifications may contribute to a current assessment of the specialist. We also believe that the “knowledge of any technical performance standards or other professional or industry requirements in the specialist’s field” is intended to be the specialist’s knowledge, not the auditors’ knowledge. We recommend that GAO revise this paragraph as follows: [Added text underlined; deleted text struck-through.]

“d. the auditors’ prior experience in using the specialist’s work assessment of the specialist’s competence and qualifications;

e. the specialist’s knowledge of any technical performance standards or other professional or industry requirements...”

Continuing Professional Education

22. We recommend that GAO include, as an appendix to GAGAS, a matrix summarizing the CPE requirements to assist auditors in complying with the requirements. See Appendix II for an example matrix based on the exposure draft.
23. Paragraph 4.23i. GAGAS discusses internal control related to audits, attestation engagements and performance audits throughout Chapters 6 through 9 (represented by GAGAS topics described in paragraphs 4.23e through h), yet GAO includes “internal control as addressed in GAGAS” as a separate GAGAS topic in paragraph 4.23i. Is it GAO’s intent to include training on COSO’s *Internal Control - Integrated Framework* and GAO’s *Standards for Internal Control in the Federal Government* as part of “internal control as addressed in GAGAS”?
24. Paragraphs 4.33 through 4.37. The National Association of State Boards of Accountancy (NASBA) maintains standards for measurement of CPE programs. We recommend that GAO reference the GAGAS CPE measurement to NASBA criteria to minimize record keeping challenges. If GAO retains the measurement guidance in GAGAS, we recommend that GAO consider inclusion of nano learning.

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Chapter 5: Quality Control and Peer Review

System of Quality Control

25. We recommend that GAO disaggregate the requirements and application guidance in paragraphs 5.20 through 5.26, “*Requirements: Audit Performance, Documentation, and Reporting*,” and paragraphs 5.27 through 5.41, “*Application Guidance: Audit Performance, Documentation, and Reporting*,” respectively, into several categories of requirements and related application guidance. The volume of related application guidance is significant and difficult to connect to specific requirements.
26. Paragraph 5.21. We recommend that GAO add “engagement supervision” as follows, or delete the application guidance related to engagement supervision in paragraph 5.33.

“The audit organization should establish policies and procedures pertaining to engagement supervision and review of audit work performed and ...” [Added text underlined.]

Chapter 6: Standards for Financial Audits

Additional GAGAS Requirements for Conducting Financial Audits

27. Paragraph 6.16. We believe that the requirement related to auditors’ responsibility should be limited to communicating to those charged with governance instances that may, in the auditors’ professional judgment, constitute potential waste or abuse. We do not believe that auditors should have the responsibility to “perform audit procedures to ascertain the potential effect on the financial statements or other financial data significant to the audit objectives” because we are unsure what the financial statement effect would be.

In addition, we recommend that GAO eliminate the requirement for auditors to consider the potential effect of waste or abuse on the entity’s operations because this is not related to a financial audit. There is also a significant risk that different auditors could have differing opinions as to whether a particular matter constitutes waste or abuse and that they could arrive at different conclusions as to the potential effect on the entity’s operations.

28. Paragraphs 6.17 and 6.18. We believe that the definitions for waste and abuse are too similar to distinguish between the two. Specifically, we believe that “using or expending resources carelessly, extravagantly, or to no purpose” would always be considered “deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.” Paragraph 6.18 does not explicitly state that abuse excludes waste, rather it states: “Abuse... excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements.” We believe that this suggests that abuse may include waste and we recommend that GAO clarify its intent in this paragraph.

Paragraph 6.18 states: “Because the determination of abuse is subjective, auditors are not required to perform procedures to detect abuse in financial audits.” We believe that auditors should also not be required to detect waste in financial audits and we recommend that GAO revise paragraph 6.17 to include the following statement: “Because the determination of waste is subjective, auditors are not required to perform procedures to detect waste in financial audits.”

29. Paragraphs 6.16, 6.19 and 6.39. GAGAS uses the following phrases to describe the requirements in these paragraphs: “if auditors *become aware of* [emphasis added]”, “when auditors *identify* [emphasis added]”, and “when they *detect* [emphasis added].” We believe it is unclear whether

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GAO's use of three different verbs requires three different actions, and we recommend GAO reconsider the verb choice to clarify the intended action(s).

30. Paragraphs 6.21 through 6.24. We believe the definitions of *criteria*, *condition* and *cause*, create challenges when an auditor is writing an internal control deficiency. Currently, many reports on internal control over financial reporting describe substantive errors/ misstatements/ noncompliance identified rather than the missing control(s) or the control(s) that was not properly designed/implemented/operating effectively. We believe these definitions could be expanded to address control deficiencies. See Appendix III to our comment letter for an example Glossary in which we included revised definitions of criteria, condition and cause.

Additional GAGAS Requirements for Reporting on Financial Audits

31. Paragraphs 6.34 through 6.36. We believe these paragraphs are missing pertinent information and could be organized in a more logical manner assuming GAO wants to retain the current reporting on internal control over financial reporting and compliance. We recommend that GAO replace these three paragraphs with the following four paragraphs.

6.34 When providing an opinion or a disclaimer on financial statements, auditors should report on internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and grant agreements regardless of whether they identify deficiencies as described in paragraph 6.36 or instances of noncompliance, fraud, waste or abuse as described in paragraph 6.37.

6.35 When performing a financial audit other than a financial statement audit, auditors should report on internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and grant agreements when auditors identify deficiencies as described in paragraph 6.36 or instances of noncompliance, fraud, waste or abuse as described in paragraph 6.37.

6.36 When reporting on internal control over financial reporting, auditors should report as findings any significant deficiencies or material weaknesses in internal control over financial reporting.

6.37 When reporting on compliance with provisions of laws, regulations, contracts, and grant agreements, auditors should report relevant information about:

- a. noncompliance with provisions of laws, regulations, contracts, or grant agreements that has a material effect on the financial statements or other financial data significant to the audit objectives;
- b. fraud that is material, either quantitatively or qualitatively, to the financial statements or other financial data significant to the audit objectives; or
- c. waste or abuse that is material, either quantitatively or qualitatively, to the financial statements or to other financial data that are significant to the audit objectives or to the entity's operations.

32. Paragraph 6.35. We believe that it is unclear what, if any, is the auditors' reporting responsibility when another party (e.g. the OIG/GAO/other) identifies and reports on noncompliance, fraud, waste or abuse that directly relates to the objectives of the audit or has a material effect on the financial statements or other financial data significant to the audit objectives.

33. Paragraph 6.38. We do not believe that auditors have responsibility for report distribution to users and we recommend that GAO delete the following sentence from this paragraph:

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“If separate reports are used, the auditors should make the report on internal control and compliance available to users in the same manner as the financial audit report to which it relates.”

34. Paragraph 6.40. We believe that it is unclear what is meant by “evaluating controls that are relevant to the audit involves understanding significant controls that the audited entity designed, implemented, and operated as part of its responsibility for oversight of public resources.” The phrase suggests that in all circumstances auditors will test the operating effectiveness of internal controls. We recommend that GAO clarify its intent, particularly because GAGAS does not have a requirement associated with this application guidance that states auditors must or should test the operating effectiveness of controls. This applicable guidance follows the requirement for reporting on internal control.

Chapter 7: Standards for Attestation Engagements and Reviews of Financial Statements

Examination Engagements

35. Paragraphs 7.18 through 7.20. See our above comments 27 and 28 on paragraphs 6.16 through 6.18.
36. Paragraph 7.41. See our above comment 32 on paragraph 6.35.

Review Attestation Engagements and Reviews of Financial Statements

37. Paragraphs 7.75 and 7.76. See our above comment 28 on paragraphs 6.17 and 6.18.

Agreed-Upon Procedures Engagements

38. Paragraphs 7.86 and 7.87. See our above comment 28 on paragraphs 6.17 and 6.18.

Chapter 8: Fieldwork Standards for Performance Audits

Planning

39. Paragraph 8.04. We believe this paragraph is inconsistent with the purpose statement contained in paragraph 8.01 that states: “Fieldwork requirements establish an overall approach for auditors to apply in planning and performing an audit to obtain sufficient, appropriate evidence that provides a reasonable basis for findings and conclusions based on the audit objectives.” We recommend that GAO revise this paragraph as follows: [Added text underlined; deleted text struck-through.]

“Auditors must plan the audit to reduce audit risk to an appropriate level for the auditors to obtain ~~reasonable assurance~~ sufficient, appropriate evidence to support their findings and conclusions.”

In addition, we believe it is unclear why paragraph 8.04 uses “appropriate level” whereas paragraph 8.06 uses “acceptable level” when discussing audit risk. We recommend GAO consider the need for consistency and revise GAGAS as applicable.

40. Paragraph 8.12. We believe this paragraph is inconsistent with the purpose statement in paragraph 8.01 and the reporting language in paragraph 9.02, and recommend that GAO revise this paragraph as follows: [Added text underlined; deleted text struck-through.]

“In performance audits ~~that comply with~~ conducted in accordance with GAGAS, auditors obtain ~~reasonable assurance~~ sufficient, appropriate evidence to provide a reasonable basis that their findings and conclusions are valid, accurate, appropriate, and complete with respect to the audit objectives. ~~Sufficient, appropriate evidence provides the basis for this assurance.~~”

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41. Paragraph 8.19. This paragraph states: “For audit objectives that pertain to the current status or condition of a program, sufficient, appropriate evidence is gathered to provide reasonable assurance that the description is...”

We believe it is unclear which “description” is being referred to – the description of the objective, or the description of the status or condition of the program, which would presumably be contained in the report? Also, we believe that the guidance described herein would be relevant to other types of audit objectives, not just those that relate to the concept of “the current status or condition of a program.”

Also, we believe that it is unclear what the “condition” of a program means – does this refer to the qualitative condition (i.e. good, bad, fair, etc.), or to the conditions (i.e. requirements) of participation? In the 2011 GAGAS, this description is specifically coupled with “Status or condition of program operations or progress in implementing legislative requirements,” which seems to bracket the intent of this type of audit objective more narrowly and more clearly.

We recommend that GAO revise this paragraph to clarify its intent and we suggest including specific examples as appropriate.

Conducting the Engagement

42. Paragraph 8.69. We believe that the requirement related to auditors’ responsibility should be limited to communicating to those charged with governance instances that may, in the auditors’ professional judgment, constitute potential waste or abuse. We do not believe that auditors should have the responsibility to “perform audit procedures to ascertain the potential effect on the audit objectives” because we are unsure what the effect would be.
43. Paragraphs 8.75 and 8.76. See our above comment 28 on paragraphs 6.17 and 6.18.

Audit Evidence

44. Paragraph 8.95. We believe that by specifically stating that written representations are not a GAGAS requirement, it may be difficult for auditors to obtain a written representation letter from management. It appears to be the only time in GAGAS that application guidance specifically calls something out as not being a requirement. Therefore, we recommend that this sentence be deleted. We also recommend that GAO revise this paragraph as follows: [Added text underlined; deleted text struck-through.]

“Where auditors use evidential matter provided by management, Auditors may request that management provide should consider the need for written representations from management as to the accuracy and completeness of information provided.”

45. Paragraphs 8.122 and 8.123. We believe these paragraphs appear to require the auditor to conduct a root cause analysis to identify such a finding, rather than reporting the proximate cause. In audits where the effectiveness of internal control is not a primary audit objective or internal control has been assessed as not significant to the audit objectives, this may require auditors to conduct procedures that far exceed the scope stated in the objectives. It could also lead auditors to speculate on root causes in the absence of access to direct information that would allow them the comprehensive view needed to identify “multiple factors including fundamental, systemic, root causes.” We recommend that GAO clarify its intent.

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Chapter 9: Reporting Standards for Performance Audits

Report Content

46. Paragraph 9.24. This paragraph states: “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, including how the auditors *considered the concept of accountability for use of public resources and government authority* [emphasis added] while assessing audit risk associated with internal control, and...” We believe that it is unclear in what circumstances this consideration would be relevant, or what form these considerations would take. We recommend that GAO provide application guidance related to “the concept of accountability for use of public resources and government authority,” and the relationship of such to internal control in *Chapter 8: Fieldwork Standards for Performance Audits*.
47. Requirement: Reporting on Internal Control. We recommend that GAO include an additional requirement for use when internal control is not significant to the audit objectives, such as: “If internal control is not significant within the context of the audit objectives, auditors should indicate in their report that the audit did not consider internal control and therefore no conclusions about internal control should be drawn from this report.”

If you have questions about our response, please contact Ms. Amanda Nelson at [REDACTED].

Sincerely,

KPMG LLP

Appendix I: *Editorial Matters*

In the following editorial matters, as applicable, added text is underlined and deleted text is struck-through.

1. Paragraph 2.12a. We recommend that GAO revise the language for consistency with paragraph 7.01 as follows:

“The American Institute of Certified Public Accountants (AICPA) has established ...accountants (CPA). For financial audits and attestation engagements, GAGAS incorporates by reference AICPA Statements on Auditing Standards and Statements on Standards for Attestation Engagements No. 18, *Attestation Standards: Clarification and Recodification*. For reviews of financial statements, GAGAS incorporates by reference Statement on Standards for Accounting and Review Services No. 21, section 90, *Review of Financial Statements*.”

2. Title and Paragraphs 2.15 and 2.16. We recommend that GAO revise “audit report” to “report” or “engagement report” to clarify that the requirements are applicable to audit reports, attestation engagement reports, or review of financial statement reports.
3. Paragraph 3.43. We believe this paragraph is redundant and could be deleted. At a minimum, we recommend that GAO move this paragraph to follow the Requirements: General section.
4. Paragraphs 3.74, 3.75, 3.81c, 3.87, and 3.102. The referencing within the sentences makes the sentences challenging to follow and we recommend that GAO delete the referencing.
5. Paragraph 4.13. We recommend that GAO revise this paragraph as follows:

“The competence...requirements. Competence of specialists relates to the nature and level of expertise ~~of specialists~~. Qualifications of specialists...”

6. Paragraphs 4.15 through 4.19. We recommend that GAO clearly indicate whether the requirements are applicable to internal auditors who provide direct assistance to an engagement team.
7. Paragraph 4.17. We recommend that GAO separate the following sentence into a separate requirement: “The audit organization should maintain documentation of each auditor’s CPE.”
8. Paragraph 4.23. We recommend that GAO revise the paragraph as follows:

~~“e. additive GAGAS requirements for financial audits and examination engagements, attestation engagements, and reviews of financial statements;~~

~~f. additive GAGAS requirements for review and agreed upon procedures engagements;”~~

9. Paragraph 4.24c. We recommend that GAO revise the paragraph as follows:

~~“c. the AICPA’s general attestation standard related to criteria, the AICPA attestation standards for fieldwork and reporting, and the related Statements on Standards for Attestation Engagements No. 18, *Attestation Standards: Clarification and Recodification* and Statements on Standards for Accounting and Review Services No. 21, section 90, *Review of Financial Statements*;~~”

10. Paragraph 5.03. We recommend that GAO revise “audit work” to “engagement work” to clarify that the guidance is applicable to work related to either an audit, attestation engagement, or review of financial statements.
11. Title/Paragraph 5.12. Within the title “*Requirement: Initiation, Acceptance, and Continuance of Audits*,” we recommend GAO revise “Audits” to “Engagements” to align with the use of “engagements” in paragraph 5.12.
12. Paragraph 5.20. We believe this requirement is duplicative of the requirement in paragraph 5.02 and could be deleted. However, if GAO does not agree, we recommend that GAO revise the beginning of the sentence as follows for consistency with the other requirements in paragraphs 5.21 through 5.24.

~~“Audit organizations~~ The audit organization should establish...”

13. Paragraph 5.23. We recommend that GAO replace “quality control procedures” with “policies and procedures” to be consistent with paragraphs 5.20, 5.21, and 5.24.
14. Paragraphs 5.27 and 5.30. We believe the difference between these paragraphs is unclear and recommend that GAO combine the two paragraphs and eliminate the duplicative language, or include additional text to differentiate between the two paragraphs.
15. Paragraph 5.29. We recommend that GAO delete unnecessary text as follows:

~~“Smaller audit organizations may use more informal methods in the documentation of their systems of quality control, such as manual notes, checklists, and forms.”~~
16. Paragraph 5.35. We recommend that GAO place this paragraph immediately before paragraph 5.39 for a more logical flow to the application guidance.
17. Paragraph 5.40. We recommend that GAO insert “advisory” between “such” and “services” to clearly reference back to the advisory services discussed in paragraph 5.39.
18. Paragraph 5.44. We recommend that GAO replace “engagement supervisor” with “partner or director” as those terms are defined in paragraph 4.10c.
19. Paragraphs 5.47 and 5.48. We believe these paragraphs are duplicative and recommend that GAO combine these paragraphs as follows: [Added text underlined; deleted text struck-through.]

5.47 Monitoring of quality is a periodic assessment of work completed on engagements designed to provide management of the audit organization with reasonable assurance ~~that the policies and procedures related to the system of quality control are suitably designed and operating effectively in practice.~~

~~5.48 The purpose of monitoring compliance with quality control policies and procedures is to provide an evaluation of whether the~~

a. applicable professional standards and legal and regulatory requirements have been followed, and that the reports issued by the audit organization are appropriate in the circumstances.

b. quality control system has been appropriately designed, and

c. quality control ~~policies and procedures are~~ system is operating effectively and ~~are~~ is complied with in practice.

20. Paragraph 5.51 states: “Periodic consideration and evaluation of the system of quality control may...” whereas paragraph 5.52 states: “Monitoring procedures may also...” We believe there is no distinction between the two phrases and recommend that GAO combine the two paragraphs.

21. Paragraph 5.68. We recommend that GAO revise “audits” to “engagements” to align with the title “*Requirements: Selection of GAGAS Engagements*” and the use of “engagements” in paragraph 5.69.
22. Paragraph 5.72 and 5.100. We recommend that GAO replace Footnote 29 and Footnote 30 with the following:
- “See Figure 2, *Developing Peer Review Communications for Observed Matters in Accordance with Generally Accepted Government Auditing Standards*.”
23. Paragraph 5.72a and 5.100a. We recommend that GAO revise these paragraphs for consistency with the terminology used in paragraphs 5.72 and 5.100, and the definitions of peer review ratings used in paragraphs 5.70 and 5.98, as follows:
- “If the peer review team’s evaluation of observed matters does not identify any findings (more than a remote possibility that the reviewed audit organization would not perform, report, or both in conformity with applicable professional standards and applicable legal and regulatory requirements), or identifies...”
24. Paragraph 6.01. We recommend that GAO revise this paragraph as follows:
- “For financial audits, GAGAS incorporates by reference the American Institute of Certified Public Accountants’ (AICPA) Statements on Auditing Standards (SAS).”
25. Paragraph 6.09. We recommend that GAO revise this paragraph for consistency with paragraph 7.11, as follows:
- “For some matters...to take prompt corrective action to prevent further occurrences when a control deficiency...”
26. Paragraphs 6.26 and 6.27. We recommend that GAO revise these paragraphs as follows:
- 6.26 Regardless of the type of finding identified, the cause of a finding ~~may~~ relates to an underlying internal control deficiency. Depending on the magnitude of impact, likelihood of occurrence, and nature of the deficiency, the deficiency could be a significant deficiency or material weakness in a financial audit.
- 6.27 Auditors ~~Considering~~ internal control in the context of a comprehensive internal control framework, such as *Standards for Internal Control in the Federal Government* or *Internal Control—Integrated Framework*, ~~can help auditors to determine whether potential underlying internal control deficiencies exist as the root cause of findings.~~ Identifying ~~these~~ internal control deficiencies can help provide the basis for developing meaningful recommendations for corrective actions.
27. Title to paragraph 6.51. We recommend that GAO revise the title as follows:
- “*Application Guidance: Reporting ~~to~~ Findings Directly to Parties Outside the Audited Entity*”
28. Paragraph 7.01. We recommend that GAO revise this paragraph as follows:
- “For attestation engagements, GAGAS incorporates by reference the American Institute of Certified Public Accountants’ (AICPA) Statement on Standards...”
29. Paragraph 7.02. We recommend that GAO revise this paragraph for consistency with AT-C 105.10 as follows:
- “An attestation engagement can provide one of three levels of service as defined by the AICPA: an examination engagement, a review ~~level attestation~~ engagement, or an agreed-upon procedures engagement.”

30. Paragraph 7.02. We also recommend that GAO revise this paragraph as follows:

“The “Review Engagements” section of this chapter can be used for either review-level attestation engagements or reviews of financial statements, as applicable.”

31. Title to Paragraph 7.16. We recommend that GAO revise the title of the requirements and application guidance as follows:

“Requirement: Noncompliance with Provisions of Laws, Regulations, Contracts and Grant Agreements”

“Application Guidance: Noncompliance with Provisions of Laws, Regulations, Contracts and Grant Agreements”

32. Paragraph 7.17. We recommend that GAO revise “audit objectives” to “engagement objectives”.

33. Paragraph 7.36. We recommend that GAO revise “audit report” to “examination report”.

34. Paragraphs 7.28 and 7.29. Refer to our above comment ___ on paragraphs 6.26 and 6.27.

35. Paragraphs 7.37 and 7.39 through 7.44. We believe these paragraphs could be organized in a more logical manner under a combined *Requirements: Reporting Deficiencies in Internal Control and Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements or Instances of Fraud, Waste, or Abuse* as follows:

Requirements: Reporting Deficiencies in Internal Control and Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements or Instances of Fraud, Waste, or Abuse

7.39 Auditors should...material weaknesses.

7.41 When auditors conclude...about

- a. noncompliance...subject matter;
- b. fraud...engagement objectives; or
- c. waste or abuse...entity’s operations.

7.37 If auditors report...examination engagement.

7.42 When auditors detect...audited entity officials.

Application Guidance: Reporting Deficiencies in Internal Control and Noncompliance with Provisions of Laws, Regulations, Contracts, and Grant Agreements or Instances of Fraud, Waste, or Abuse

7.40 Determining whether...professional judgment.

7.43 When auditors detect...is a matter of professional judgment.

7.44 When noncompliance...public record.

36. Paragraph 7.37. We recommend that GAO revise the paragraph to include “(including separate reports bound in the same document)” immediately following “If auditors report separately”, rather than in its current location.

37. Paragraph 7.41. We recommend that GAO revise this paragraph as follows:

“b. fraud that is material, either quantitatively or qualitatively, to the subject matter or an assertion about the subject matter ~~that is significant to the engagement objectives;~~ or

c. waste or abuse that is material, either quantitatively or qualitatively, to the subject matter or an assertion about the subject matter ~~that is significant to the engagement objectives~~ or to the entity's operations."

38. Paragraph 7.52. We recommend that GAO revise "audit report" to "examination report."
39. Paragraph 7.73. We recommend that GAO revise "the review" to "the review attestation engagement or review of financial statements."
40. Paragraph 7.76. We recommend that GAO revise "examination engagements" to "review attestation engagements or reviews of financial statements."
41. Paragraphs 7.77 and 7.79. We recommend that GAO revise "review engagements" to "review attestation engagements or reviews of financial statements."
42. Paragraph 7.78. We recommend that GAO revise this paragraph as follows:

"Because GAGAS incorporates by reference the AICPA's attestation standards SSAE No. 18, Attestation Standards: Clarification and Recodification, and SSARS No. 21 section 90, Review of Financial Statements, GAGAS..."
43. Paragraph 7.87. We recommend that GAO revise "examination engagements" to "agreed-upon procedures engagements."
44. Paragraphs 8.08 and 8.09. We believe the last sentence in paragraph 8.08 is redundant of the first sentence in paragraph 8.09. We recommend that GAO delete the last sentence in paragraph 8.08 and revise the first sentence in paragraph 8.09 as follows:

"Auditors may need to refine or adjust the audit objectives, scope, and methodology as work is performed."
45. Paragraphs 8.75 and 8.76. We noted these paragraphs are the same as paragraphs 6.17 and 6.18, respectively, with the exception of the following italicized differences. We recommend that GAO consider revising such paragraphs for consistency.

"8.75 Waste is ...activities that do not include *fraud and* abuse and...

8.76 Abuse is ...indicative of *potential* fraud or noncompliance..."
46. Various. We recommend that GAO consistently use either "staff" or "personnel", but not a combination of the two unless GAO intends to draw a distinction between the two terms, in which case we recommend that GAO define the terms.
47. Various. We believe the frequent referencing to other paragraphs is unnecessary and we recommend that GAO eliminate such referencing as noted in the following example. [Deleted text struck-through.]

Paragraph 3.74 "Whether an activity is a management responsibility ~~as identified in paragraph 3.73 or otherwise~~ depends on the facts and circumstances."

Appendix II: Proposed CPE Matrix based on Exposure Draft

	GAGAS Qualification		Update to GAGAS Qualification	Professional Competence - See NOTE 1	
	At least 4 hours in GAGAS topics (GAGAS 4.15)	Complete by end of individual's first full 2-year CPE period	At least 4 hours in GAGAS topics upon revision to GAGAS. Complete by end of auditor's next full 2-year CPE period after revision. (GAGAS 4.17)	24 hours in the following subject matter categories: standards, statutory requirements, regulations, criteria, and guidance applicable to auditing or the objectives for the GAGAS engagement(s) being conducted (includes the 4 hours of GAGAS topics for GAGAS Qualification when applicable) (GAGAS 4.18) - See NOTE 2	56 hours in subject matters or topics that directly enhance auditors' professional expertise to conduct GAGAS engagements (GAGAS 4.18) - See NOTE 2
Audit firm personnel:					
College and university students/interns (GAGAS 4.29)					
Entry level auditors (GAGAS 4.10a):					
a) Charge < 40 hours of annual time to GAGAS audits (GAGAS 4.27)	✓		✓	✓	Individuals are exempt from the CPE requirements
b) Charge < 20% of annual time to GAGAS engagements and only involved in performing engagement procedures (GAGAS 4.26)		✓		✓	Individuals are exempt from the CPE requirements
c) Charge < 20% of annual time to GAGAS engagements and involved in any amount of planning, directing, or reporting		✓		✓	Individuals are exempt from the CPE requirements
d) Charge > 20% of annual time to GAGAS engagements	✓		✓	✓	Individuals are exempt from the CPE requirements
Supervisory auditors (GAGAS 4.10b)	✓		✓	✓	Individuals are exempt from the CPE requirements
Partners and directors (GAGAS 4.10c)					
Specialists (GAGAS 4.05)					
Other non-firm personnel that may be involved in the audit:					
Internal auditors used in a direct assist role	?	?	?	?	?
External auditors engaged by the audit firm:					
Entry level auditors (GAGAS 4.10a)	See above: Audit firm personnel- entry level auditors				
Supervisory auditors (GAGAS 4.10b)	✓		✓	✓	See above: Audit firm personnel- entry level auditors
Partners and directors (GAGAS 4.10c)	✓		✓	✓	See above: Audit firm personnel- entry level auditors

NOTE 1 - Auditors should complete at least 20 hours of CPE in each year of the 2-year periods (GAGAS 4.19).

NOTE 2 - CPE may be prorated (GAGAS 4.28).

Appendix III: *Glossary*

Where currently defined	Term	Definition	Comments
	Personnel.	Individuals employed by an audit organization. This includes auditors, specialists or other individuals.	Term not previously defined.
1.04	Those charged with governance.	The individuals responsible for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process, subject matter, or program under audit, including related internal controls. Those charged with governance may also be part of the entity's management. In some audited entities, multiple parties may be charged with governance, including oversight bodies, members or staff of legislative committees, boards of directors, audit committees, or parties contracting for the engagement.	
1.12b	Certified Public accounting firm.	Public accounting organization in the private sector that provides audit, attestation <u>engagement</u> , or review <u>of financial statement services under contract to government entities or recipients of government funds</u> .	Added text underlined; deleted text struck through.
1.17	Financial audit.	<u>A financial statement or other audit in which the auditor provides</u> 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.	Added text underlined.
1.18a	Examination.	An attestation engagement in which the auditor obtains reasonable assurance by obtaining sufficient appropriate evidence about the measurement or evaluation of subject matter against criteria in order to be able to draw reasonable conclusions on which to base the practitioner's opinion about whether the subject matter is in accordance with (or based on) the criteria or the assertion is fairly stated, in all material respects.	Replaced with definition from AT-C 105.10; replaced "practitioner" with "auditor" as GAGAS defines "auditor".
1.18b	Review.	An attestation engagement in which the auditor obtains limited assurance by obtaining sufficient appropriate review evidence about the measurement or evaluation of subject matter against criteria in order to express a conclusion about whether any material modification should be made to the subject matter in order for it be in accordance with (or based on) the criteria or to the assertion in order for it to be fairly stated.	Replaced with definition from AT-C 105.10; replaced "practitioner" with "auditor" as GAGAS defines "auditor".
1.18c	Agreed-upon procedures engagement.	An attestation engagement in which the auditor performs specific procedures on subject matter or an assertion and reports the findings without providing an opinion or a conclusion on it. The parties to the engagement (specified party), as defined later in this paragraph, agree upon and are responsible for the sufficiency of the procedures for their purposes.	Replaced with definition from AT-C 105.10; replaced "practitioner" with "auditor" as GAGAS defines "auditor".
1.19, 1.23n	Review of financial statements.	A review of financial statements consists of <u>An engagement conducted in accordance with GAGAS in which the auditor obtains limited assurance by obtaining sufficient testing appropriate evidence as a basis for reporting whether the auditor is aware of any material modifications that should be made to the financial statements in order for the financial statements to be in accordance with the applicable financial reporting framework.</u>	Added text underlined; deleted text struck through.
1.20	Performance audit.	An engagement conducted in accordance with GAGAS in which the auditor obtains limited assurance by obtaining sufficient appropriate evidence as a basis for measuring or evaluating the subject matter and presenting the resulting information.	Derived from GAGAS 1.20.

Appendix III: *Glossary*

Where currently defined	Term	Definition	Comments
1.22	Nonaudit services.		See Significant Comment No. 1 in our Comment Letter for recommendation to keep extant definition.
1.23a	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.	
1.23b	Audit.	Either a financial audit or performance audit conducted in accordance with GAGAS.	
1.23c, 3.42	Audit organization.	A government audit entity or a public accounting or other audit entity that performs GAGAS engagements. An entity that includes multiple offices or units, or includes multiple entities related or affiliated through common control, is considered to be one audit organization.	
1.23d	Audited entity.	The entity that is subject to a GAGAS engagement, whether that engagement is an audit <u>financial audit</u> , attestation engagement, or review of financial statements, or performance audit .	Added text underlined; deleted text struck through.
1.23e	Auditor.	An individual <u>planning, directing, performing fieldwork, or reporting on GAGAS engagements</u> performing work in accordance with GAGAS (including work on audits, attestation engagements, and reviews of financial statements) regardless of job title. Therefore, individuals who may have the title auditor, information technology auditor, analyst, practitioner, evaluator, inspector, or other similar titles are considered auditors in GAGAS.	Added text underlined; deleted text struck through.
1.23f	Control objective.	The aim or purpose of specified controls. Control objectives address the risks related to achieving an entity's objectives.	
1.23g	Engagement.	An financial <u>audit</u> , attestation engagement, or review of financial statements, or performance audit conducted in accordance with GAGAS.	Added text underlined; deleted text struck through.
1.23h	Engagement team.	Professional staff members <u>Personnel</u> assigned to planning, directing, performing fieldwork, or reporting on GAGAS engagements. <u>The engagement team excludes the auditor's engagement quality control reviewer, any external specialist engaged by the audit organization, and individuals within the audited entity's internal audit function who provide direct assistance on an engagement.</u>	Expanded to agree with AICPA definition (AU-C 220.09). Added text underlined; deleted text struck-through.
1.23h	Audit team.	See "engagement team".	
1.23i	Engaging party.	The party requesting or requiring a GAGAS engagement that <u>engages the auditor to perform the engagement.</u>	Derived from AICPA definition (AT-C 105.10). Added text underlined; deleted text struck through.
1.23j	Entity objective.	What an entity wants to achieve. Entity objectives are intended to meet the entity's mission, strategic plan, and goals and requirements of applicable laws and regulations.	
1.23k	External audit organization.	An audit organization <u>that is not accountable to senior management nor those charged with governance of the audited entity and that issues reports to management or those charged with governance of the audited entity, or third parties external to the audited entity .</u>	Added text underlined; deleted text struck through.
1.23l	Internal audit organization.	An audit organization that is accountable to senior management and those charged with governance of the audited entity and that does not generally issue reports to third parties external to the audited entity.	

Appendix III: *Glossary*

Where currently defined	Term	Definition	Comments
1.23m	Responsible party.	The party responsible for a GAGAS engagement’s subject matter. <u>If the nature of the subject matter is such that no such party exists, a party who has a reasonable basis for making a written assertion about the subject matter may be deemed to be the responsible party.</u>	Revised to agree with AICPA definition (AT-C 105.10). Added text underlined.
1.23n	Review of financial statements.	See proposed edits at paragraph 1.19.	
1.23o	Specialist.	An individual or organization possessing expertise in a field other than auditing that assists auditors in conducting engagements.	
2.02a	Unconditional requirement.	Requirement with which auditors and audit organizations <i>must</i> comply in all cases where such requirement is relevant. GAGAS uses <i>must</i> to indicate an unconditional requirement.	
2.02b	Presumptively mandatory requirement.	Requirement with which auditors and audit organizations must comply in all cases where such requirement is relevant except in rare circumstances discussed in paragraphs 2.03, 2.04, and 2.08. GAGAS uses <i>should</i> to indicate a presumptively mandatory requirement.	
3.08	Public interest.	The collective well-being of the community of people and entities that the auditors serve.	
3.19, 3.21, 3.22, 3.40, 3.61	Reasonable and informed third party (RITP).	A test that involves an evaluation by a hypothetical person <u>who has knowledge of all the relevant information, including safeguards applied, and is sufficiently knowledgeable about independence matters to evaluate independence in fact and appearance.</u> Such a person possesses skills, knowledge, and experience to objectively evaluate the appropriateness of the auditor’s judgments and conclusions. This evaluation entails weighing all the relevant facts and circumstances that the auditor knows, or could reasonably be expected to know, at the time that the evaluation is made.	Added text underlined.
3.11	Professional judgment.	The application of the collective knowledge, skills, and experiences of all the personnel involved with an engagement, as well as the professional judgment of individual auditors. In addition, professional judgment may involve collaboration with other stakeholders, specialists, and management in the audit organization.	
4.06	Competence.	The knowledge, skills, and abilities, obtained from education and experience, necessary to conduct the GAGAS engagement. Competence includes possessing the technical knowledge and skills necessary for the assigned role and the type of work being done. This includes possessing specific knowledge about GAGAS.	
4.07	Experience.	Workplace activities that are relevant to developing professional proficiency.	
4.09, 4.10	Proficiency.		Term not previously defined; GAO to define the term as used in GAGAS, or replace with "competency" as that term is defined in paragraph 4.06.
4.10a	Entry level role.	Consists of planning or performing engagement procedures 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.	

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Where currently defined	Term	Definition	Comments
4.10b	Supervisory role.	Consists of planning engagements, performing engagement procedures, or directing engagements. Work situations for these auditors are characterized by moderate levels of ambiguity, complexity, and uncertainty. The supervisory role necessitates at least an intermediate level of proficiency.	
4.10c	Partner and director.	Individual that plans engagements, performs engagement procedures, or directs or reports on engagements. Partners and directors 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.	
4.11a	Planning.	Determining engagement objectives, scope, and methodology; establishing criteria to evaluate matters subject to audit; or coordinating the work of other audit organizations. This excludes solely gathering information used in planning the engagement.	
4.11b	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.	
4.11c	Performing engagement procedures.	Performing tests and procedures necessary to accomplish the engagement objectives in accordance with GAGAS.	
4.11d	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.	
5.73, 5.101	Deficiency.	<u>One or more findings that the peer reviewer concludes that because of their nature, causes, pattern, or pervasiveness, including their relative importance to the audit organization’s system of quality control taken as a whole, could create a situation in which the audit organization would not have reasonable assurance of performing, reporting, or both in conformity with professional standards and applicable legal and regulatory requirements in one or more important respects.</u>	Revised to agree with AICPA Peer Review Standards definition (PR 1000.70c). Added text underlined.
	Government audit organization.		Term not previously defined; GAO to define the term as used in GAGAS.
	Nongovernment audit organization.		Term not previously defined; GAO to define the term as used in GAGAS.
6.17	Waste.	The act of using or expending resources carelessly, extravagantly, or to no purpose. Waste involves the taxpayers not receiving reasonable value for money in connection with any government-funded activities because of an inappropriate act or omission by parties with control over or access to government resources. Importantly, waste can include activities that do not include abuse and does not necessarily involve a violation of law. Rather, waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight.	

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Where currently defined	Term	Definition	Comments
6.18	Abuse.	Behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances, but excludes fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements. Abuse also includes misuse of authority or position for personal financial interests or those of an immediate or close family member or business associate.	
6.21	Finding.	A deficiency in internal control; noncompliance with provisions of laws, regulations, contracts, and or a grant agreements; or instances of fraud, waste, or abuse.	Added text underlined; deleted text struck through.
6.22, 7.24, 8.117	Criteria.	The laws, regulations, contracts, grant agreements, standards, measures, expected performance, defined business practices, and benchmarks against which performance is compared or evaluated. 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, <u>conclusions or recommendations in a report.</u> For a control deficiency, GAO's <u>Standards for Internal Control in the Federal Government (Greenbook) or the Committee of Sponsoring Organizations of the Treadway Commission's Internal Control – Integrated Framework (COSO 2013) may be used as criteria.</u>	Added text underlined.
6.23, 7.25, 8.118	Condition.	A situation that exists. The condition is determined and documented during the audit <u>engagement.</u> For a finding related to a control deficiency, the condition is a missing control, or a control <u>that is not properly designed, implemented or operating effectively.</u>	Added text underlined; deleted text struck through.
6.24, 7.26, 8.119	Cause.	The factor or factors responsible for the difference between the condition and the criteria, which may also serve as a basis for recommendations for corrective actions. Common factors include poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation; or factors beyond the control of program management. Auditors may assess whether the evidence provides a reasonable and convincing argument for why the stated cause is the key factor contributing to the difference between the condition and the criteria. For a finding related to a control deficiency, the cause often relates to another principle(s) from the Greenbook or COSO 2013, such as a principle within the <u>Risk Assessment component of internal control.</u>	Added text underlined.
6.25, 7.27, 8.120	Effect or potential effect.	The outcome or consequence resulting from the difference between the condition and the criteria. When the audit <u>engagement</u> objectives include identifying the actual or potential consequences of a condition that varies (either positively or negatively) from the criteria identified in the <u>audit engagement</u> , effect is a measure of those consequences. Effect or potential effect may be used to demonstrate the need for corrective action in response to identified problems or relevant risks.	Added text underlined; deleted text struck through.
8.08	Program.	Processes, projects, studies, policies, operations, activities, entities, and functions.	

Appendix III: *Glossary*

Where currently defined	Term	Definition	Comments
8.10	Scope.	The boundary of the audit that is directly tied to the audit objectives. The scope defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program, the necessary documents or records, the period of time reviewed, and the locations that will be included.	
8.15	Significance.	The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors. Such factors include the magnitude of the matter in relation to the subject matter of the audit, the nature and effect of the matter, the relevance of the matter, the needs and interests of an objective third party with knowledge of the relevant information, and the matter's effect on the audited program or activity.	