



OFFICE OF INSPECTOR GENERAL
Federal Housing Finance Agency

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Sent via Electronic Mail, YellowBookComments@gao.gov

James Dalkin, Director
Financial Management and Assurance
U.S. Government Accountability Office
Washington, DC

Dear Mr. Dalkin:

The Federal Housing Finance Agency Office of Inspector General (FHFA OIG) reviewed the Government Accountability Office's (GAO) *Government Auditing Standards 2017 Exposure Draft* (GAO-17-313SP), and we are pleased to provide the following comments on the nine discussion items in Enclosure II for GAO's consideration:

1. **Discussion Item:** Generally accepted government auditing standards (GAGAS) is presented in a revised format. This is intended to allow auditors to quickly identify requirements and application guidance related to those requirements. In addition, certain topics are regrouped within the chapters. Please comment on how the revised format of GAGAS affects the organization and readability of the standards.

FHFA OIG comment: Setting out requirements in text boxes followed by the application guidance improves the readability of the standards.

2. **Discussion Item:** In chapter 3 ("Ethics, Independence, and Professional Judgment"), additional requirements and guidance are provided concerning the provision of nonaudit services to audited entities, including further explanation of the responsibility to ensure that management of the audited entity possesses the appropriate skills, knowledge, and experience to oversee the nonaudit service and expanding discussion of nonaudit services that should be considered threats or impairments to an external auditor's independence. (various paras. 3.67 through 3.101) Please comment on whether the revisions related to nonaudit services sufficiently and clearly explain what is required and prohibited under GAGAS.

FHFA OIG comment: The revisions related to nonaudit services sufficiently explain what is required and prohibited under GAGAS. The definition of nonaudit services in para. 1.22 ("...professional services provided on behalf of management at audited

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entities”) is an improvement over the current definition (“...professional services other than audits or attestation engagements”) as it more clearly sets forth that a nonaudit service is a service done at the direction and control of management.

- Discussion Item:** In chapter 4 (“Competence and Continuing Professional Education”), GAGAS discusses the levels of proficiency required for the roles on an engagement as well as a description of the tasks generally expected to be performed by auditors in these roles. (paras. 4.09 through 4.10) Do these roles and descriptions clarify the competence required of auditors conducting engagements in accordance with GAGAS? Is the level of proficiency expected for each of these roles clear?

FHFA OIG comment: The purpose of these two paragraphs is unclear and we recommend that they be deleted. At a minimum, the expectations associated with the levels of proficiency (basic, intermediate, and advanced) need to be further defined.

- Discussion Item:** Chapter 4 (“Competence and Continuing Professional Education”) includes a requirement for auditors to complete at least 4 hours of continuing professional education (CPE) in GAGAS topics (“GAGAS Qualification”). This 4-hour requirement is a subset of the 24-hour CPE requirement and needs to be completed each time a GAGAS revision is issued. Application guidance provides examples of the types of topics that would qualify as GAGAS topics. (paras. 4.15 and 4.23) Please comment on any additional topics that could be included in the 4-hour GAGAS CPE requirement or other requirements that would enhance auditor proficiency in GAGAS.

FHFA OIG comment: We support the new 4-hour GAGAS CPE requirement and have no additional topics to suggest.

- Discussion Item:** The content from the GAGAS guidance document on CPE (GAO-05-568G) is largely incorporated into chapter 4. We plan to retire the guidance document when the new GAGAS is issued. (paras. 4.26 through 4.50) Is there any additional application guidance that should be included in the GAGAS revision to enable auditors and audit organizations to effectively implement the CPE requirements given the planned retirement of the CPE guidance document?

FHFA OIG comment: We are satisfied with application guidance in the Exposure Draft.

- Discussion Item:** In chapter 5 (“Quality Control and Peer Review”), the sections on quality control and external peer review are expanded to harmonize with other standards and promote consistency in practice across the range of GAGAS auditors. Are the changes to the quality control and external peer review sections appropriate and reasonable?

FHFA OIG comment: Overall, the changes to the quality control and external peer review sections are appropriate and reasonable. We do offer the following comments:

- Para. 5.02. The purpose of adding “...and that the reports issued by the audit organization are appropriate in the circumstances” is not clear and the addition is redundant. A system of quality control is supposed to be designed to provide reasonable assurance of compliance with applicable professional standards. Appropriate reporting is encompassed in professional standards.
- Para. 5.45. The second sentence is unclear. We suggest the following: “This evaluation should assess, in consideration of the deficiencies noted, whether the audit organization’s system of quality control is sufficient to provide it with reasonable assurance ...”
- Paras. 5.58 to 5.60 infer that an audit organization should have policies and procedures to investigate complaints and allegations of noncompliance with the audit organization’s system of quality control. However, this expectation is not specifically stated as a standard in paras. 5.42 to 5.46. If this is what GAO intends (to make such policies and procedures a standard), we recommend that para. 5.42 be revised as follows: “The audit organization should establish policies and procedures for monitoring its system of quality control *and for investigating complaints and allegations of noncompliance with the system of quality control.*”

7. **Discussion Item:** In chapter 5 (“Quality Control and Peer Review”), peer review requirements are categorized by requirements for (1) audit organizations affiliated with recognized organizations and (2) other audit organizations. (paras. 5.63 through 5.113) Are the peer review requirements for each category of audit organization clear?

FHFA OIG comment: The peer review requirements for each category of audit organization are clear. That said, the categorization presumes the recognized organizations maintain peer review requirements that are consistent with the peer review requirements in paras. 5.80 through 5.113. We believe it would be more straightforward if GAGAS prescribed a single set of minimum peer review requirements for all audit organizations, regardless of their affiliation with a recognized organization.

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

FHFA OIG comment: As we do not anticipate performing work under SSARS No. 21, section 90, we have no comment on the expanded requirements and application guidance in the Exposure Draft.

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

through 8.65) Do these sections clearly describe ways auditors assess internal control on performance audits?

FHFA OIG comment: In general, we find paras. 8.37 through 8.42 to be imprecise in some parts and unclear in others. For example, para. 8.38 refers to internal control concepts such as the three categories of entity objectives and the five components of internal control but does not enumerate, either parenthetically or by footnote, these objectives and components. Similarly, para. 8.45, which is referenced at para. 8.39, refers to entity-level controls and transaction-level controls but does not define these terms or give examples. Another concern is that the guidance may lead auditors to prepare extensive narratives and tables to document why, for example, each of the five components of internal control is or is not considered significant to the audit objectives. Overall, the standards and guidance in the 2011 Revision are more clearly presented than in the Exposure Draft (recognizing that some updating is needed to reflect the 2014 revision to GAO's *Standards for Internal Control in the Federal Government*).

We offer the following additional comments for your consideration.

- Para. 4.23a. As the Exposure Draft does not prescribe standards for ethics, we suggest the following wording for this GAGAS topic: “ethical principles and standards for independence, professional judgment, competence and CPE, quality control, and peer review as established in GAGAS.”
- Chapter 8, general. We note that the Exposure Draft changes the sequence of fieldwork activities from that in the 2011 Revision to GAGAS. Specifically, the standard requiring an auditor to prepare a written audit plan (para. 8.31) now comes before the requirements to, for example, obtain an understanding of the nature of the program under audit (para. 8.34) and internal control that is significant to the audit objectives (para. 8.43) and the provisions of laws, regulations, contracts, and grant agreements that are significant within the context of the audit objectives (para. 8.66). These activities were considered part of planning in the 2011 Revision, leading up to the last activity under planning—the preparation of the audit plan. By positioning the preparation of the plan before other planning activities are completed may lead to inefficiencies such as the need to continually change the audit plan as the auditors get more familiar with the program, internal control, and the like.
- Para. 8.95. We suggest that guidance be expanded to include considerations by the auditor as to the impact to the GAGAS compliance statement if management does not provide a requested written representation on a performance audit. Since the discussion of written representations is presented as guidance, the second sentence of the paragraph is not necessary and we recommend it be dropped.

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If you or your staff have any questions regarding our comments, please contact me at [REDACTED], or Bob Taylor, Assistant Inspector General for Audits, at [REDACTED].

Sincerely,

Marla A. Freedman /s/
Deputy Inspector General for Audits