



# STATE OF WISCONSIN | Legislative Audit Bureau

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Joe Chrisman  
State Auditor

July 6, 2017

Mr. Dalkin, Director  
Financial Management and Assurance  
U.S. Government Accountability Office  
4414 G Street, NW  
Washington, DC 20548

Dear Mr. Dalkin:

Thank you for the opportunity to comment on the Government Accountability Office's 2017 Exposure Draft (ED) of Government Auditing Standards.

Our comments on seven of the nine Questions for Commenters included in the exposure draft are attached to this letter. While we generally agree with the exposure draft, we offer several suggestions that we believe would improve the clarity and align the standards with audit practice. First, we believe that the defined levels of proficiency required for the roles on an engagement and the description of these roles are not sufficient and make suggestions for additional guidance related to these roles. Second, we would request that GAO consider including additional CPE topics and guidance from GAO's CPE guidance document (GAO-05-568G). We believe these comments should be considered as GAO finalizes the standards.

Again, thank you for the opportunity to comment on the exposure draft. If you have any questions about our comments, feel free to contact Lisa Kasel, who coordinated our response, at [REDACTED]

Sincerely,

A handwritten signature in black ink, appearing to read 'Joe Chrisman', written over a white background.

Joe Chrisman  
State Auditor

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## Questions for Commenters

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

*Response: Overall, the format of the standards provided for increased readability since the requirements are clearly delineated from guidance information.*

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

*Response: We appreciate the additional guidance in this area and believe the additional information is clear.*

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

*Response: We believe that some additional clarification is needed in paragraph 4.10, as discussed below:*

- A. *Paragraph 4.10: Three levels of engagement roles are included in this paragraph – Entry Level, Supervisory, and Partners and Directors. We believe an additional role should be placed between entry level and supervisory. This role would be for experienced auditors that have an intermediate level of proficiency and may work on more complex areas of the audit. However, these staff are not in a supervisory role and would not have responsibility for planning or directing the engagement.*
- B. *Paragraph 4.10a: We question the clarity of “basic level of proficiency” that is used to describe the entry-level role as it relates to new auditors, as well as how proficiency in GAGAS relates to the GAGAS Qualification requirement described in paragraph 4.15. We offer the following suggestion to help improve clarity by providing additional guidance and making modifications to paragraph 4.08.*

*Paragraph 4.08 provides guidance that the knowledge, skills and abilities needed when conducting an engagement includes an understanding necessary to proficiently apply GAGAS, other standards, and audit techniques necessary for the work being performed. Paragraph 4.03 states that auditors assigned to an engagement must possess the competence needed for their assigned roles at the time of assignment.*

*From these requirements, it is unclear what would be expected of an entry-level auditor who, at the time of assignment, may not have the “basic level of proficiency” as described in paragraph 4.10a. Given that entry-level auditors receive training in the areas described in paragraph 4.08 upon hire and throughout their first two years, they may not be proficient in all areas prior to their first assignment. They receive this training and also receive on the job training related to the tasks assigned to enable them to proficiently perform the work with close supervision. Further, paragraph 4.15 allows a two-year period for entry-level auditors to obtain the GAGAS Qualification. Therefore, it would appear that the GAGAS Qualification would not be needed to have a basic level of proficiency. However, paragraph 4.08a states that auditors need to be proficient in applying GAGAS in performing engagements.*

*To improve the clarity, we would suggest the following be considered:*

- Modify paragraph 4.08 to include the underlined text: “The knowledge, skills, and abilities needed when conducting an engagement in accordance with GAGAS include the understanding necessary to proficiently apply, according to their assigned role.”*
  - Include additional clarification in paragraph 4.08a related to how proficiency in GAGAS relates to the GAGAS Qualification requirement in paragraph 4.15, particularly for entry-level auditors.*
  - Provide additional guidance to recognize that entry-level auditors assigned to their first audit may be learning throughout the assignment through both formal and on the job training that enables them to achieve the basic level of proficiency for the work being completed. These entry-level auditors would be closely supervised and their work reviewed throughout the engagement by an auditor in the supervisory role.*
4. Chapter 4 (“Competence and Continuing Professional Education”) includes a requirement for auditors to complete at least 4 hours of continuing professional education (CPE) in GAGAS topics (“GAGAS Qualification”). This 4-hour requirement is a subset of the 24-hour CPE requirement and needs to be completed each time a GAGAS revision is issued. Application guidance provides examples of the types of topics that would qualify as GAGAS topics. (paras. 4.15 and 4.23) Please comment on any additional topics that could be included in the 4-hour GAGAS CPE requirement or other requirements that would enhance auditor proficiency in GAGAS.

*Response: We are unclear whether all of the topics listed in paragraph 4.23 are required to be covered in the 4-hour training or whether the topics to be covered are dependent upon the types of GAGAS audits that an auditor will performed. If the required training is intended to*

*be specific to the audits that the auditor will perform, we encourage GAO to reconsider the 4-hour requirement. We also provide two additional topics that could be considered to enhance proficiency in performing audits under GAGAS:*

- *Policies and procedures implemented by the audit organization related to the requirements of GAGAS, including, but not limited to independence, quality assurance, and audit performance and reporting.*
- *AICPA auditing standards for financial audits, attestation engagements, and reviews, incorporated into GAGAS through paragraph 2.12a.*

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

*We agree with the proposal to incorporate the 2005 guidance into the new GAGAS. However, we encourage GAO to consider adding the following areas previously included in GAO-05-0568G but not incorporated in to the proposed new GAGAS:*

*A. Topics applicable to the 24-hour requirement (para. 4.24)*

- *We encourage GAO to incorporate the guidance previously in para. 18(a) from GAO-05-0568G that permitted additional categories, such as “information technology developments and applications that affect or could affect the government entity or program.” With the increased automation of governmental internal controls, training on information systems is essential to increasing the proficiency of audit staff in conducting governmental audits.*
- *We encourage GAO to incorporate the guidance previously in para. 18(a) from GAO-05-0568G that permitted additional categories, such as “current fiscal trends and other developments affecting the entity or the government environment.” This broad category would recognize educational programs targeting an auditor’s proficiency in how different aspects of government operations may impact risk in conducting governmental audits.*
- *Previously GAO-05-0568G included a provision at the conclusion of para. 18(c) that a training that qualified under the 56-hour requirement would also qualify under the 24-hour requirement if the subject was tailored specifically to the government environment. We encourage the GAO to directly incorporate this concept in the proposed GAGAS as part of the guidance provided under para. 4.24.*

*B. Topics applicable to the 56-hour requirement (para. 4.25)*

*We encourage GAO to incorporate the guidance previously in para. 19 from GAO-05-0568G that permitted additional topics, such as “software applications used in conducting audits and attestation engagements.”*

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

*Response: Overall, we believe the changes being proposed are appropriate and reasonable. We do, however, make the following suggestions:*

- *Paragraph 5.23: This requirement would be better placed as a part of the Human Resources requirements included as paragraph 5.14 since the monitoring of CPE for auditors is generally completed outside of the audit process.*
- *Paragraph 5.85: We would suggest the addition of an item for the written agreement that addresses the confidentiality of audit documentation.*

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

*Response: Overall, it was confusing to understand which requirements applied to affiliated and not affiliated organizations due to the length of the requirements and the duplication of information. We would make the following suggestion to improve the clarity:*

- *Include in the header for each requirement a parenthetical reference of either (Not Affiliated) or (Affiliated), so that readers are able to easily determine if the requirement applies without having to go back to prior pages.*

*Alternatively, consideration could be given to reorganizing the section to remove duplication. For instance, there could be one section on requirements that apply to both affiliated and not affiliated (paragraphs 5.70-5.74 and 5.98-.102 and paragraphs 5.75-.79 and 5.108-.112) and then a section on requirements that would only apply to peer reviews completed with not affiliated organizations.*