

From: [REDACTED]
To: [Yellow Book Comments](#)
Cc: [REDACTED]
Subject: Treasury OIG's Comments on 2017 Yellow Book Exposure Draft
Date: Thursday, July 06, 2017 7:53:52 AM
Attachments: [REDACTED]

Good morning Mr. Dalkin,

Attached, please find Treasury OIG's comments to the 2017 Exposure Draft to *Government Auditing Standards*. We appreciate GAO providing the audit community a chance to comment on the proposed changes to the standards. Should you or anyone on your team have any questions regarding our comments, please contact me.

Thank you again for the chance to comment on this exposure draft.

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Enclosure II: Questions for Commenters

The following questions are provided to guide users in commenting on the 2017 exposure draft. We encourage you to comment on these issues and any additional issues that you note. Please associate your comments with specific references to question numbers, paragraph numbers, or both in the proposed standards and provide your rationale for any proposed changes, along with suggested revised language.

Discussion Items

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.

Treasury OIG Comment:

While the organization of the updated version does satisfy the intent of quickly identifying requirements and application guidance, the readability is very difficult to follow. The use of borders to separate sections is difficult for a reader to separate the requirements section from the application guidance section. The proposed format is hard to follow compared to the 2011 format with the mail body title on the left and the indent of the texts on the right.

In addition, the readability is also very difficult when multiple sections are combined together under "requirements" and separated under "application guidance." Greater clarity and flow would be gained by placing the "application guidance" after the specific "requirement" if this format will remain.

We believe that repetitive blocks and statements, "*Requirement: ...*" and "*Application Guidance: ...*" to highlight a requirement in each chapter can be omitted if the following suggested additional tools are used in Chapter 2, as follows:

- **We suggest adding "must and should" as highlighted below to bring the readers to the words that make a statement a requirement.**

2.02 GAGAS uses two categories of requirements, identified by specific terms ~~—must and should—~~, to describe the degree of responsibility they impose on auditors and audit organizations

2.07 GAGAS contains requirements together with related explanatory material in the form of application guidance. Auditors have a responsibility to consider the entire text of GAGAS in carrying out their work and in understanding and applying the requirements in GAGAS. Not every paragraph of GAGAS carries a requirement. Rather, GAGAS identifies the requirements through use of specific language ~~—must and should~~.

Additionally, sub-headings like the example below are not clearly distinguishable from a paragraph:

Standards, Statutory Requirements, Regulations, Criteria, and Guidance Applicable to Auditing or the Objectives for the GAGAS Engagement(s) Being Conducted (24-Hour Requirement)

4.24 Standards, statutory requirements, regulations, criteria, and guidance applicable to auditing or to the engagement objectives may include, but are not limited to, the following:

Other general areas of clarification (specific to chapter 2) include:

- **Section 2.13, 6.01, footnote 32, 7.01, and footnote 36 cite the AICPA Code of Conduct; it should be AICPA Code of Professional Conduct (it was revised effective December 15, 2014).**
- **Section 2.08 is hard to understand and should be revised.**

We also recommend keeping/including the following Appendix I supplemental lists from the 2011 Green Book:

- **A.10 Examples of Indicators of Fraud Risk (as it appears in the 2011 version of the Yellow book)**
- **A2.02 Performance Audit Objectives(as it appears in the 2011 version of the Yellow book)**

These areas are not discussed in as much detail in the body of the exposure draft. We believe that these are useful lists to have available.

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.

Treasury OIG Comment:

Paragraphs 3.02 to 3.17 are the foundation to conducting audits and other work by auditors. We recommend incorporating these items in Chapter 1.

Information in paragraphs 3.69 to 3.101 could be restated in one paragraph that says, for example,

“The following non-audit services performed by auditors impair auditors’ independence and auditors should conclude as such and implement applicable safeguards:

- management responsibilities
- preparation of accounting records
- internal audit assistance activities.....”

Additionally, Section 3.71 states: “A critical component of determining whether a threat to independence exists is consideration of management’s ability to effectively oversee the nonaudit service to be provided. Although the responsible individual in management is required to have sufficient expertise to oversee the nonaudit services and to be capable of detecting a material error, omission, or misstatement, management is not required to possess the expertise to perform or re-perform the services.” This statement is contradictory. If the responsible person is “required to have sufficient expertise to oversee the nonaudit services.....” they should also possess the expertise to perform or re-perform the services that they’re overseeing.

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?

Treasury OIG Comment:

Suggest revising or deleting 4.03. The proposed requirement places focus on an individual’s competence rather than the team’s collective competence to address the audit objectives.

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.

Treasury OIG Comment:

Consider including financial statement audit standards topics as an option in the 4-hour GAGAS CPE requirement.

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

Treasury OIG Comment:

Chapters 4.26 (a & b) and 4.27, as written, may present potential issues in determining the validity of an independent public accountant's compliance with CPE requirements.

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?

Treasury OIG Comment:

We recommend deleting "~~and that the reports issued by the audit organization are appropriate in the circumstances~~" from 5.02. We also recommend revising the highlighted portion of 5.64 "Audit organizations affiliated with one of the following recognized organizations **should comply with the respective organization's peer review requirements and the requirements listed in the "Additional Requirements for Audit Organizations Affiliated with Recognized Organizations" section (paragraphs 5.68 through 5.79)." or deleting the paragraph and 5.65 for the following reasons:**

The CIGIE Guide for Conducting Peer Reviews of Audit Organizations of Federal Offices of Inspector General is guidance and not requirements or standards. The Guide states, "This guidance provides CIGIE member audit organizations with information on the implementation of the General Standard on Quality Control and Assurance in Government Auditing Standards, issued by the Comptroller General of the United States." The Guide for states, "The September 2014 Guide provides OIGs with procedures to ensure that peer reviews are conducted in an appropriate and consistent manner."

Audit organizations issuing GAGAS engagements should be required to follow the same standards regardless of whether they belong to an affiliate organization or whether they are large or small.

Combine standards and guidance in 5.68 to 5.113 to avoid duplications.

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?

Treasury OIG Comments:

No additional comments for this question.

Treasury OIG Comments Related to Chapter 6:

Chapter 6 (“Standards for Financial Audits”) was NOT included in GAO’s overall question format. However, the following needs clarification with respect to including “waste” as part of the auditor’s consideration:

- **Requirement 6.16:** As part of a GAGAS audit, if auditors become aware of waste or abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives, auditors should perform audit procedures to ascertain the potential effect on the financial statements or other financial data significant to the audit objectives. Also, if auditors become aware of waste or abuse that could be significant to the entity’s operations, **they should consider the potential effect on the entity’s operations.**

Given the scope of the audit pertains to financial statements, shouldn’t the potential effect be specific to the statements? The effect on internal control relates to internal control over reporting with exception of opinion on internal control. In the 2011 *Government Auditing Standards*, consideration of “abuse” in the context of materiality and its effect was required as with the potential for “fraud.” These both impact management assertions and overall reliability of such assertions. Consideration of “waste,” whether material or not, would not necessarily impact management’s assertions as to fair presentation of the financial statements, and accordingly, impact the auditor’s opinion. Auditor judgement will be the major determination of “waste.” Suggest further clarification and examples of when this would impact any of management’s assertions and fair presentation of the financial statements.

Any consideration of changes may need to be incorporated in the sections 6.20, 6.35, and 6.39 as they relate to consideration and documentation of “waste” as well as Chapter 7 for attestation engagements.

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

Please comment on the expanded requirements and application guidance.

Treasury OIG Comments:

No additional comments. See above for our comments with regards to the consideration of “waste”.

9. In chapter 8 (“Fieldwork Standards for Performance Audits”), internal control considerations are expanded to reference the 2014 *Standards for Internal Control in the Federal Government* and *Internal Control – Integrated Framework*. (paras. 8.37 through 8.65). Do these sections clearly describe ways auditors assess internal control on performance audits?

Treasury OIG Comments:

- **The logical flow of planning is lacking in the revised format and certain concepts are confused with application.**
 - **Example: The overall requirement that the audit be adequately planned in 8.03 incorporated requirements 8.04 – 8.06 in the 2011 *Government Auditing Standards*. Requirements 8.04 through 8.07 are part of adequate planning which is the overall concept/requirement. Although these are stated as must/should requirements, breaking them out implies that they are separate, distinct, and stand-alone. This is not the case as not performing one or more would result in the overall requirement to adequately plan the audit in section 8.03 would still not be met.**
 - **Example: Requirement 8.04 related to reducing “audit risk” is defined conceptually in section 8.16 but application in how to do this was removed from section 6.11 in the 2011 *Government Auditing Standards*. What would be considered application material for assessing audit risk does not appear until section 8.34 – 8.36.**
 - **Example: Requirement 8.07 for identifying appropriate criteria is not described until 8.17 and 8.18.**
- **We suggest listing in bullet format, the factors affecting audit risk for better clarity and ease of use in Section 8.16.**
- **Incorporation of the 2014 *Standards for Internal Control in the Federal Government* and *Internal Control – Integrated Framework* (Green Book) in sections 8.37 – 8.65. While Green Book is the overarching requirement for internal control, it is unclear why there is a need to incorporate concepts and terminology applicable to the Federal entity.**
 - **Section 8.38 needs to be clarified/defined if terminology from the Green Book is to be used.**

Consideration of internal control in a performance audit begins with assessing the significance of internal control to the audit objectives and documenting that assessment. Some factors that may be considered when assessing the significance of internal control to the audit objectives include

a. the subject matter under audit, such as the program or program component under audit, including the audited entity's objectives for the program and associated inherent risks;

b. the nature of findings and conclusions expected to be reported, based on the needs and interests of audit report users;

c. the three categories of entity objectives; and

d. the five components of internal control and the integration of the components.

- **How does requirement 8.37 really differ from requirement 8.43? It appears to overlap and create redundancy in consideration of internal control. If there is a distinction, it would appear that 8.43 would come prior to 8.37.**

8.37: Auditors should document the significance of internal control to the audit objectives.

8.43: Auditors should obtain and document an understanding of internal control that is significant to the audit objectives.

- **Section 8.45 refers to the five components of internal control but does not define them. See related comment to section 8.38.**