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Gene L. Dodaro
Comptroller General of the United States

Re: Government Auditing Standards 2017 Exposure Draft

Dear Mr. Dodaro,

The Association of Local Government Auditors (ALGA) appreciates the opportunity to respond to the GAO's *Government Auditing Standards* exposure draft. Our organization represents more than 340 audit organizations and about 2,200 members. Nearly a quarter of our member organizations have two or fewer auditors and most follow *Government Auditing Standards*. We have encouraged individual audit organizations and members to comment independently should they choose to do so.

We have reviewed the *Government Auditing Standards* exposure draft in its entirety. We appreciate the opportunity to provide comments and help in the process of ensuring that the standards meet the needs of the federal, state, and local government audit communities. We provide comments in two sections. First, in items 1 through 9, we respond to the questions provided in the exposure draft. Second, in item 10, we make additional comments and suggestions.

1. *Generally accepted government auditing standards (GAGAS) is presented in a revised format. This is intended to allow auditors to quickly identify requirements from 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: Generally, we feel that the revised format improves the organization and readability of the standards. Specifically, emphasizing the requirements from application guidance is beneficial for audit organizations. We provide the following observations for consideration in the final document:

- **Readability and Organization** – While not using the 2011 GAGAS format of placing the headings and subheadings in the left-margin white space makes the document shorter, it can hinder readability when looking for specific content. If the left-margin white space is not used in the final version, consider emphasizing the section headings within each chapter (e.g., using a larger font or underlining). Also, consider emphasizing the *Requirements* and *Application Guidance* headings (e.g., bolding).

- **Consistency in approach to definitions** – We agree that defining key terms, as in paragraph 1.23, is helpful for users to understand the context for how the terms will be used throughout GAGAS. However, paragraph 1.23 does not include all of the key terms used within GAGAS. Some key terms are defined within the paragraphs where they are used rather than in paragraph 1.23 (e.g., “must/should,” “fraud/waste/abuse,” and “program,” which is actually defined three times, in paragraphs 8.08, 8.19, and 8.117). Other terms are not defined at all in GAGAS (e.g., the “categories” in “the three categories of entity objectives” and the “components” in “five components of internal control”) and the user is not referred to other guidance where the definitions can be found. When the terms in paragraph 1.23 are used in GAGAS, users are sometimes, but not always, referred back to paragraph 1.23 through a footnote (e.g., “specialist” in paragraphs 3.30, 3.107, 4.05, 4.12 through 4.14).

Based on these observations, we suggest the following for consideration: (1) incorporating an index and glossary into the final document that is more inclusive of key terms used throughout GAGAS, (2) adding footnotes to refer the user to where the term is defined, (3) emphasizing terms that are further defined elsewhere (e.g., bold or italics) to inform the user that the term was previously defined, and/or (4) referring the user to other guidance documents where the definitions can be found, such as the *2014 Standards for Internal Control in the Federal Government* and the *Internal Control – Integrated Framework*.

- **Updates of audit organizations’ documentation** – We want to highlight that the revised format will require audit organizations to update their policies and procedures, and audit engagement standardized documentation. We mention this as something for the GAO to consider when determining the effective date of the new standards in relation to the release date.
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. Please comment on whether the revisions related to nonaudit services sufficiently and clearly explain what is required and prohibited under GAGAS. (various paras. 3.67 through 3.101)*

Response: While paragraphs 3.67 through 3.101 explain what is required and discusses the concept of “prohibited” nonaudit services, GAGAS does not expressly identify any specific activity as a prohibited nonaudit service. Instead, based on the use of the word “should” in these paragraphs, it forces the auditor to assume that prohibited nonaudit services are any that would impair the auditor’s independence. Furthermore, the order in which the paragraphs are provided and the use of the term, “on behalf of the audited entity,” make it difficult to clearly understand when the audited entity must designate an individual to oversee the nonaudit service. As such, we offer the following considerations to improve the readability and clarity of this section:

- **Clearly define relationships** – Delineate nonaudit services into the three relationships described below (this is similar to the 2007 GAGAS which describes 3 types of nonaudit services based on impact to independence):
 - **Relationship 1:** A service provided at the request of an engaging party (e.g., governing body) to evaluate actions or information of a responsible party (i.e., management). The services provided under this relationship may include investigating possible fraud, reducing the risk of management override of controls, or improving governance. This type of nonaudit service **does not require** oversight by a designated individual in the audited entity.

- **Relationship 2:** A service provided at the request of the public or governing body. The services provided under this relationship may include estimating the fiscal impact of proposed legislation, preparing questions for hearings, or developing surveys and collecting responses. This type of nonaudit service **does not require** oversight by a designated individual in the audited entity.
- **Relationship 3:** A service provided at the request of the responsible party (i.e., management). The services provided under this relationship may include analyzing data, providing training, or reviewing system design. This type of nonaudit service **requires** oversight by a designated individual in the audited entity.

This delineation should be provided within the requirements and application guidance sections that start at paragraphs 3.67 and 3.70. The application guidance provided in 3.80 should also be moved closer to the beginning of this application guidance section and clearly address that services provided under relationship 1 would not pose a management participation threat and that the threat to independence is less likely under relationship 1 and 2, but that the existence of any threat to independence depends on the relationship with the other parties involved and the service(s) being provided with respect to any GAGAS engagement the auditor conducts.

The requirement(s) prior to this application guidance (currently 3.67 through 3.69 in the exposure draft) should be changed as follows to help clarify the application of these requirements:

- Paragraph 3.67 should address that the first part of the requirement relates to all three relationships, while the second half of the requirement only applies to relationship 3.
- Paragraph 3.68 should address that it only applies to relationship 3.
- Paragraph 3.69 should address that if auditors were to assume management responsibilities under relationship 1 or 3, the management participation threats created would be so significant that no safeguards could reduce them to an acceptable level.

The remaining paragraphs in section 3.67 through 3.101 and other chapters, such as paragraph 1.22, should be updated to reflect the aforementioned changes. For example, paragraph 3.81 would only be applicable to relationship 3.

- **Clearly identify prohibited nonaudit services** – Paragraph 3.87 states, “Auditors may be able to provide nonaudit services in the broad areas indicated in paragraphs 3.88 through 3.101 without impairing independence if (1) the nonaudit services are not expressly prohibited by GAGAS requirements.” This language is also in the 2011 Government Auditing Standards. However, GAGAS does not expressly prohibit any specific nonaudit service. GAGAS uses the word “should” throughout paragraphs 3.88 through 3.101 in statements such as “should conclude that the following services...impair independence...” By using the word “should,” which is defined as “presumptively mandatory,” it is reasonable to conclude that the auditor is presumptively mandated to conclude that these services are prohibited.

Therefore, we suggest that the application guidance in paragraph 3.87 be clarified to align with the requirements in paragraphs 3.88 through 3.101.

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. **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?** (paras. 4.09 through 4.10)

Response: Generally, we agree with the levels of proficiency required for the roles on an engagement. However, depending on the size and the reporting structure of the audit organization, the audit organization might have fewer or more defined roles, and titles can vary greatly among audit organizations, as indicated in paragraph 1.23.e. The roles, as provided by the GAO, may be blended or elaborated on by the audit organization during the consideration of the level of proficiency needed for the engagement. As such, we suggest not using titles for these roles to allow audit organizations the flexibility to adapt the standards to their organization. For example, paragraph 4.10.a could be **changed** to read,

Auditors in roles that necessitate at least a basic level of proficiency can plan or perform engagement procedures. These work situations are usually characterized by low levels of ambiguity, complexity, and uncertainty.

In addition, audit organizations provide staff with opportunities to develop professional proficiencies through assigning staff to an audit or role that will provide experience needed to foster knowledge, skills, and abilities. Therefore, we offer the following considerations to support adaptability of the standards to many audit organizations while not changing the intent of the standards.

- **Competence at the time of assignment (Paragraph 4.03)** – Consider removing paragraph 4.03, which states, “The audit organization’s management must assign auditors who at the time of assignment possess the competence needed for their assigned roles.” We offer this consideration because the “must” requirement does not appear to provide the flexibility for management to provide opportunities for staff (or intern) development as discussed in paragraph 4.04. The development of staff should be encouraged to help foster the staff’s knowledge, skills and abilities. Staff should be provided these opportunities while still receiving appropriate oversight through supervision, mentoring, coaching, etc. In addition, in the case of very small audit organizations, there may not be resources available to conduct the work without on-the-job training. Therefore, the combination of paragraph 4.02 with paragraphs 4.09 through 4.11 (with suggested revisions described below) seem sufficient to ensure management assigns an engagement team that collectively possesses the competence to complete the audit.
- **Competence can be obtained from other resources (Paragraph 4.07)** – Consider adding to paragraph 4.07 that competence is not derived just from workplace experience or auditing experience. Experience can also be obtained through mentorship programs and participation in relevant professional organizations (e.g., ALGA, IIA, AICPA, etc.). Adding this language to 4.07 will help clarify that an individual’s experience can be augmented through other resources.
- **Add qualifying terms to improve on flexibility (Paragraphs 4.10 and 4.11)** – Our understanding of the GAO’s intent is that no matter the size of the audit organization, the auditor or auditors assigned to an engagement should alone or collectively possess the competence needed to address the engagement objectives and perform their work in accordance with GAGAS. As such, the level of proficiency an auditor has should be considered regardless of whether the auditor falls specifically within one or more of the roles provided in the application guidance section.

This can be further clarified by **adding** qualifying terms to paragraphs 4.10 and 4.11. The paragraphs would then read as follows:

*Roles on the engagement **may** include the following:*

and

*Definitions of key terms **generally** are:*

Adding these qualifying terms to paragraphs 4.10 and 4.11 will not lessen the requirement at paragraph 4.02; it will provide audit organizations flexibility in applying the requirements at 4.02 through 4.04. In addition, providing language in the application guidance that focuses on flexibility will help audit organizations plan for staff development within their organizations while ensuring the engagement is staffed appropriately.

- **Clarify Supervisor Role (Paragraph 4.10)** – Consider clarifying that the Supervisory role at paragraph 4.10.b could also mean an auditor that does not necessarily supervise other auditors. For example, Senior Auditor is a position used by some audit organizations for auditors who have an intermediate level of proficiency but do not supervise other auditors. For example, paragraph 4.10.b could read, “Auditors in roles that necessitate at least an intermediate level of proficiency can plan or perform engagement procedures, or direct engagements. These work situations are usually characterized by moderate levels of ambiguity, complexity, and uncertainty.”
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 Qualifications”). 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. **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.** (paras. 4.15 and 4.23)*

Response: We have no suggestions for additional topics that could be included in the 4-hour GAGAS CPE requirement or to the list of subjects or topics that would enhance auditor proficiency in GAGAS. However, we would like the GAO to consider a wording revision (further discussed below) related to external quality control reviews as presented in paragraph 4.43.g.

External Quality Control Reviews – One of the best training programs that enhances auditor proficiency in GAGAS is one whereby participants conduct a peer review pursuant to GAGAS and in accordance with a structured program designed to enhance auditor competence. This participation provides auditors with at least one-week of extensive time in reviewing and understanding GAGAS and an opportunity to learn from other auditors. Many audit organizations note that there is a measurable change in staff’s knowledge of GAGAS and the ability to apply GAGAS after participating on a peer review. Furthermore, as GAGAS has grown in length since its inception more than 40 years ago, peer reviews have become more complex. Peer review teams have had to perform more work that is directly related to understanding GAGAS requirements to ensure that the peer review opinion accurately reflects the adequacy of an audit organization’s compliance with its system of quality control.

Therefore, we would suggest **adding** language at 4.43.g to read as follows:

*Examples of programs...that do not qualify for CPE hours under GAGAS include...
conducting external quality control reviews, **unless conducted through a recognized organization as identified in paragraph 5.64 and for a maximum of 5 CPE hours per review and not to exceed 10 CPE hours per CPE reporting cycle.***

Pursuant to paragraph 4.31, ALGA's Peer Review Program is a structured program with learning objectives designed to enhance competence in numerous disciplines and to perform work in accordance with GAGAS. ALGA's Peer Review Program meets **multiple prongs** under paragraphs 4.23 and 4.32. Disallowing ALGA's Peer Review Program as an opportunity for GAGAS CPE hours hampers the efforts of government auditors seeking to enhance proficiency in GAGAS.

Government internal auditors subject to both GAGAS and to the *International Standards for the Professional Practice of Internal Auditing (Standards)* promulgated by The Institute of Internal Auditors (IIA) face additional hurdles. In contrast to the Yellow Book, the IIA allows peer review CPE for each of its six certifications. For five of six IIA certifications, the IIA limits the number of CPE hours for a one-week review to 5 CPE hours; for the remaining certification, the limit is 10 CPE hours.¹ Government internal auditors who maintain IIA certifications are compelled to maintain two sets of CPE documentation: one that allows limited CPE for peer reviews under IIA requirements for certifications; and a second that does not allow CPE for peer review under GAGAS requirements. Therefore, harmonizing the CPE requirements of the GAO with The IIA would:

- Enhance government internal auditor efficiency and allow maintenance of one set of CPE documentation for GAGAS requirements and The IIA's certifications;
- Further align GAGAS with The IIA *Standards* and promote consistency in practice across the range of GAGAS auditors; and
- Support paragraph 3.59 that encourages internal auditors to use The IIA *Standards* in conjunction with GAGAS.

Finally, the suggested revision acknowledges the process by which the GAO reviewed peer review programs and identified the recognized organizations under paragraph 5.64.

5. *The content from the GAGAS guidance document on CPE (GAO-05-568G) is largely incorporated in chapter 4. We plan to retire the guidance document when the new GAGAS is issued. **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?** (paras. 4.26 through 4.50)*

Response: Overall, we agree with the approach of incorporating GAO-05-568G into this chapter. We compared the guidance document GAO-05-568G contents with the contents in this chapter and have one suggestion related to 4.43.b basic and elementary courses.

Basic, Elementary, and Refresher Courses – We feel that footnote 8 in the GAO-05-568G part 24(b) *basic or elementary courses in subjects and topics in which the auditor already has the knowledge and skills being taught* should be included in chapter 4. Footnote 8 in the CPE guidance document clarifies that “refresher” courses are acceptable courses to count towards CPE hours when the course enhances the auditor’s proficiency to perform audits and attestation engagements. The inclusion of this footnote in chapter 4 will help clarify what is meant by “basic” and “elementary” and that certain “refresher” courses are allowable CPE.

¹ See Administrative Directive Number 4 – *Continuing Professional Education and Continuing Professional Development Requirements for all Certification and Qualification Programs*, IIA Global Certifications Department – August 2015, available at <https://na.theiia.org/certification/Public%20Documents/Administrative-Directive-No-4.pdf>.

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: For the most part, the changes to the quality control and external peer review sections are appropriate and reasonable. We provide the following comments for your consideration:

- **Annual independence affirmation (Paragraph 5.09)** – Paragraph 5.09 states “...audit organization personnel required to be independent.” If the intent of this statement is that not all personnel are required to be independent, consider adding language at 5.09 to read as follows.

Audit organizations should document which personnel within the audit organization are required to be independent. At least annually, the audit organization should obtain written affirmation of compliance with its policies and procedures on independence from all audit organization personnel required to be independent.

This additional step will enhance quality control for the audit organization and facilitate an effective peer review.

Also, consider adding language to address if the written affirmation is meant to be retrospective, prospective or both. This will help clarify the purpose of this requirement. Lastly, does paragraph 5.09 add any value? Engagement documentation usually has an affirmation of independence and it is a general expectation that employees follow established policies and procedures, therefore, paragraph 5.09 does not appear to add any additional value and it creates an additional documentation requirement.

- **Responsibility of the engagement (Paragraph 5.22)** – The requirements of 5.22 appear to be the responsibility of the individual who manages the audit organization, at times referred to as chief audit executive. If this is the intent of 5.22, we recommend replacing “audit organization” with “audit organization’s management.” This will ensure that management remains responsible for the audit function, assigns work responsibly, and communicates to those charged with governance. This change also might require the use of “audit organization’s management” to be defined.
- **Policies and Procedures (Paragraph 5.24)** – The following language changes are suggested to improve consistency with 5.35 and clarify that implementation of audit recommendations is beyond the control of the audit organization.
 - 5.24.a – To clarify that audit management is ultimately responsible to determine what issues are considered difficult or contentious either within or outside of the organization, consider adding language at 5.24.a to read as follows:

appropriate consultation, either within or outside of the organization, takes place on difficult or contentious issues;
 - 5.24.d – Consultations may result in conclusions that affect recommendations; recommendation implementation is beyond the control of audit organizations. Therefore, we suggest adding language at 5.24.d to read as follows.

the conclusions resulting from consultations are documented, understood by both the individual seeking consultation and the individual consulted, and implemented to the extent that the audit organization has responsibility over implementation.

- **Review of audit work related to consultations (Paragraph 5.34)** – To be consistent with the suggested change in 5.24.d above, we suggest **adding** language at 5.34.c to read as follows:

*appropriate consultations have taken place and the resulting conclusions have been documented and implemented **to the extent that the audit organization has responsibility over implementation;***

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. **Are the peer review requirements for each category of audit organization clear?** (paras. 5.63 through 5.113)

Response: Yes, generally the peer review requirements for each category of audit organization are clear. We do have the following comments to improve on consistency of the standards and provide clarification concerning the period under review.

- **External peer review (Paragraph 5.64 and 5.65)** – Some audit organizations that are affiliated with the recognized organizations under 5.64 cannot use the affiliation for purposes of peer review. These organizations must be able to obtain peer review services from an organization not recognized under 5.64. Therefore, we provide the suggested **wording changes** to ensure consistency with 2.08 regarding the need for auditors to depart from a relevant presumptively mandatory requirement if only for a specific procedure. Peer review is generally not considered a procedure.

*5.64 – **Audit organizations that obtain a peer review through one of the following recognized organizations should comply...***

*5.65 – **Any audit organization not affiliated with an organization listed in paragraph 5.64 or not using the affiliation for purposes of peer review should meet the minimum GAGAS peer review requirements...***

- **External peer review intervals (Paragraph 5.83)** – Acknowledging that this standard does not apply to the recognized organizations under paragraph 5.64, we believe the language is confusing. Paragraph 5.82 requires peer reviews at (approximately) three-year intervals. If the period under review generally covers 1 year, then the peer review may not provide assurance that for the remaining 2 year period audit engagements were performed in accordance with GAGAS. Therefore, we suggest **revising** 5.83 to read as follows:

*The period under review in a peer review generally covers 1 year, **although peer review programs may choose a longer review period.***

or

The period under review in a peer review generally covers 3 years, unless circumstances warrant a shorter period (i.e., the audit organization is new to GAGAS standards).

8. Chapter 7 (“Standards for Attestation Engagements and Reviews of Financial Statements”) is expanded to incorporate by reference Statement of 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. **Please comment on the expanded requirements and application guidance.** (paras. 7.68 through 7.80)

Response: We have no comments at this time. We do provide an overall comment on the use of “waste” which is presented under bullet number 10.

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*. **Do these sections clearly describe ways auditors assess internal control on performance audits?** (paras. 8.37 through 8.65)

Response: Yes, these sections clearly describe ways auditors assess internal control on performance audits. In addition, we generally agree with the increased emphasis on the importance of assessing internal control and referring to the *2014 Standards for Internal Control in the Federal Government* and the *Internal Control – Integrated Framework* within the internal control sections. Nevertheless, we would like to acknowledge that there is significant variance among audit organizations regarding the extent to which the internal assessment is currently documented. Therefore, due to this added emphasis on internal control, audit organizations could feel that the formality and the level of documentation will increase, which might not be the case or the intent of the standard. As such, to improve readability and application of the requirements we provide the following consideration.

The application guidance sections that follow the internal control requirement paragraphs, such as 8.37, 8.43, 8.47 and 8.52, contain what appear to be minimum documentation requirements.

For example, the requirement at paragraph 8.37 states

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

while application paragraphs 8.39 and 8.45 state

If internal control is significant to the audit objectives overall, significance is then assessed for the five components of internal control to identify which components are significant to the audit objectives.

This involves considering the relationships between the components, which work together in an integrated manner in an effective internal control system, and the principles of internal control that support each component.

and then the reporting requirement paragraph 9.25 states

If internal control that is significant to the audit objectives does not include all internal control components and underlying principles, the auditors should indicate in their report that the audit did not consider all control components.

This language implies that, at a minimum the documented assessment of internal control **should** include the consideration of the five components of internal control and the underlying principles. However, the level of detail required to support that consideration should be determined by the audit organization and documented within the organization’s policies and procedures.

Therefore, to improve readability and application of the requirement we suggest adding a list of items to the requirement paragraphs that at a minimum should be in the assessment of internal control while also acknowledging that the detail and level of any additional documentation is at the discretion of the audit organization. Similarly, the *2014 Standards for Internal Control in the Federal Government* provides minimum documentation requirements at paragraph OV4.08 while still acknowledging that the level and nature of documentation may vary based on the size of the entity, the complexity of the operational processes the entity performs and that management is to determine the extent of this documentation.

10. We provide the following additional comments for consideration:

- **Use of “GAGAS” in definitions (Paragraph 1.23.i and 1.23.m)** – We suggest deleting “GAGAS” from these definitions because in the context of nonaudit services, GAGAS does not apply.
- **Use ISACA (Paragraph 2.14(e))** – “Information Systems Audit and Control Association” is the former name for ISACA. We suggest updating the language to say, “ISACA, formerly known as the Information Systems Audit and Control Association.”
- **Footnote annual affirmation of compliance (Chapter 3)** – Consider adding a footnote in the independence section of chapter 3 starting at paragraph 3.18 similar to footnote 8 at paragraph 3.02. Footnote 8 refers to paragraph 5.08 about ethical requirements in the audit organization’s system of quality control. As such, a footnote should also be included in the independence section to refer a user to paragraph 5.09 which discusses the annual affirmation of compliance related to independence. (See comment 6)
- **Civil service statutes reference (Paragraphs 3.25 and 3.46)** – Paragraph 3.25 states “Auditors in government sometimes work under conditions that do not permit independence in accordance with this section. Examples of such circumstances...civil service statutes that permit staff members to seek employment with audited entities.” We feel that additional guidance is needed to help clarify that there is not an automatic threat to independence when these civil service statutes are in place. The impact on independence is related to which position the auditor is taking at the audited entity and the previous relationship between the two.
- **Reevaluation of threats (Paragraph 3.29)** – The requirement in paragraph 3.29 states “...whenever the audit organization becomes aware of new information or changes in facts and circumstances...” is overly broad. The application guidance does not clearly address this broad statement. As such, it is hard, especially for small audit organizations, to adequately implement this requirement.
- **Common ownership reference (Paragraph 3.42)** – The 3.42 states “Common ownership may also affect independence in appearance regardless of the level of control.” This statement could lead to a misperception or differences in judgment concerning independence. If this was not the intent, consider removing the sentence or adding additional guidance similar to paragraph 3.58.
- **Undue influence threats (Paragraph 3.50.a)** – Consider adding “or outcomes” after “fees,” so the paragraph would read “...reduce the extent of work performed in order to reduce costs, fees, or outcomes.”
- **Use of titles (Paragraph 3.51)** – This paragraph uses titles, such as principal and senior manager, that are not defined and can differ from other titles used throughout the exposure draft (e.g., paragraph 4.10). This also helps support that the roles described in paragraph 4.10 should not contain titles.
- **Suggestion to improve readability (Paragraph 3.54 through 3.57)** – To improve readability and ease of referencing, consider labeling Category I, II and III as 3.54.a, 3.54.b and 3.54.c, respectively. Instead of having them as separate paragraphs 3.55, 3.56 and 3.57, since these paragraphs are not addressing a new topic but are a continuation of paragraph 3.54. The detail below each category then could be labeled 1, 2, 3, etc., this is similar to other numbering conventions within GAGAS, such as paragraph 3.101.
- **Footnote consideration (Paragraph 3.59 Footnote 14)** – Since versions of standards can change between updates of the Government Auditing Standards, consider referencing only the standard and not a specific version of the standard (i.e., “*International Standards for the Professional Practice of Internal Auditing*”). This comment also applies to footnote 24.

- Examples of safeguards (Paragraph 3.63)** – This paragraph discusses examples of safeguards that can be applied when conducting an audit. There is a reference to paragraph 3.77 for additional examples of safeguards, which are specific to nonaudit services. To clarify the usage of examples provided in 3.77 consider stating in paragraph 3.63 that the examples provided at 3.77 can also be applied to an audit and not just nonaudit services.
- Clarification on monitoring (Paragraph 3.93)** – Consider clarifying that the use of the term “monitoring” refers to one of the five components of internal control, which is management’s responsibility. We agree that management is responsible for ensuring that there is a system of internal control, which includes evaluating internal control through monitoring. At times, audit organizations perform what is called “continuous monitoring,” which can consist of performing functions that can help reduce the risk of management override of controls (as discussed in paragraph 3.80), or reduce the risk in other areas such as noncompliance or fraud. These procedures are allowable under GAGAS when performed as part of an audit. The audit organization, when performing continuous monitoring, is not performing management’s responsibility; it is performing a separate evaluation as addressed in 3.94, a professional service as addressed in 3.80, or is performing this function as part of the audit organization’s internal risk assessment process for selecting audits. Therefore, we suggest clarifying that the use of the term “monitoring” in 3.93 refers to one of the five components of internal control and not the aforementioned services and/or functions. This distinction is in the 2011 Yellow Book at paragraph 3.54, footnote 34, which is a reference to the *2014 Standards for Internal Control in the Federal Government* and the *Internal Control – Integrated Framework*.
- Specialists (Paragraphs 4.05 and 4.12 through 4.14)** – To improve readability consider clearly stating that specialists are not subject to the GAGAS CPE requirements as presented in paragraphs 4.15 through 4.19, unless the specialist was specifically assigned to the audit as a team member. Chapter 4 clearly separates the discussion about auditors from specialists, which makes specialists presumptively exempt from the GAGAS CPE requirement. However, the specialist section does not specifically state that a specialist is exempt. In addition, the specialist section and CPE section do not address what the CPE requirements are if the specialist is actually assigned as a member of the audit team. Adding these clarifications would help make these distinctions more apparent.
- Specialists (Paragraph 4.14.e)** – Consider adding the “and access to” to paragraph 4.14.e. Then the paragraph would read “the knowledge of *and access to* any technical performance standards...” This will help strengthen that specialists have knowledge of professional resources and that they have access to these resources.
- 4-hour GAGAS Qualification requirement additional costs (Paragraphs 4.15 and 4.17)** – We want to acknowledge that the change in 4.15 and 4.17 related to completing the 4-hours GAGAS Qualification requirement may add additional training costs for audit organizations that might be operating under limited budgets. We mention this as something for the GAO to consider when developing training curriculum or when possibly helping organizations such as ALGA develop training curriculum to help ensure compliance with the GAGAS Qualification requirement.
- 4-hour GAGAS Qualification requirement unclear (Paragraphs 4.15 and 4.17)** – The intent of these requirements is unclear. Our understanding is that the GAGAS Qualification 4-hour requirement is **only** triggered when there is a revision of GAGAS. Then, auditors who have the responsibility of reviewing the work of other auditors should obtain 4 hours of CPE on GAGAS topics prior to starting a GAGAS engagement that will be performed under the new standards. The remaining audit staff should obtain the 4 hours of CPE by the end of their first full 2-year CPE period. If our understanding is correct, please consider rewriting these paragraphs to provide clarity. For example, paragraph 4.15 could be **rewritten** to read as follows:

Auditors should complete at least 4 hours of CPE in GAGAS topics each time the Comptroller General issues a revision of GAGAS. Auditors responsible for reviewing other auditors' work should obtain these 4 hours of CPE prior to completing work on the first GAGAS engagement performed under the revised GAGAS. All remaining audit staff should obtain the 4 hours by the end of their first full 2-year CPE period.

In addition, the requirement should address that the 4 hours of CPE should primarily focus on the changes that were made in the revision.

Furthermore, some audit organizations question the overall purpose of the 4-hour requirement. If the purpose of the requirement is to address a known deficiency in the application of the standards, then the 4-hour CPE requirement alone might not address the deficiency and additional guidance should be provided to ensure that the deficiency is addressed. On the other hand, if the purpose is to ensure that new auditors receive training on GAGAS or to ensure auditors are aware of new revisions of GAGAS, then this proficiency in GAGAS can be presumably obtained through other means, such as on the job training, mentoring, etc., instead of through 4 hours of CPE.

- ***CPE clarification (Paragraph 4.18)*** – Consider clarifying that the 24 hours of CPE should focus on the type of engagements that are performed by the auditors, which will require professional judgment. For example, auditors that perform financial statement audits might want to stay abreast of changes in standards issued by the Governmental Accounting Standards Board (GASB). The remaining 56 hours can focus on improving soft skills, such as written and verbal communication or technical skills. This will help lessen future confusion and inconsistencies when applying this standard.
- ***Sitting for professional certification examinations clarification (Paragraph 4.43.h)*** – Consider adding “..., even when the sponsoring professional organization includes or waives the CPE requirement when the exam is passed.” This will help clarify that CPE is allowable for the study time (i.e., self-study, attending examination courses) related to taking an exam, however, the time taking the exam and other hours granted by the sponsoring organization when completing the exam are not allowable.
- ***Use of experienced engagement team member (Paragraph 5.21)*** – Consider using the phrase “possesses the competencies and skills” or “level of proficiency” instead of “experienced engagement team members.” This will help to clarify that experience does not necessarily refer to the number of years of experience, but that the individual possesses the competencies and skills to perform the review. Another consideration is adding a footnote to this paragraph to refer a user to paragraphs 7.33 and 8.131 where experienced auditor is defined. This is another example where it would be beneficial to have a glossary and index as addressed in our first comment.
- ***Consideration for shortening document (Chapter 5)*** – We do understand that providing the same information several times throughout a document can improve readability and understanding of a topic. However, restating information can also lengthen a document. As such, we provide this observation for GAO’s consideration. The peer review report ratings and availability of the peer review report to the public are stated twice. This occurs under the recognized organization section and again under the non-affiliated audit organizations section (paragraphs 5.68 through 5.113). To help shorten the document consider creating three sections – one section would address common requirements and two separate sections would address the remaining specific requirements. Alternatively, consider stating the common requirements in either the affiliated organization section or the non-affiliated section and then referring the user to the section that applies to them. Nevertheless, we do understand that readability for a user of only one particular section can be improved upon if all information is presented together.

- **Consultation (Paragraphs 5.24, 5.36, and 5.38)** – The intent of GAGAS is to promote a culture in which consultation is recognized as a strength and personnel are encouraged to consult on difficult or contentious issues. However, the level of documentation seems to work directly against the intent of the standard, which could make personnel less likely to use consultation. Therefore, we suggest generalizing the discussion of documentation to allow audit organizations the flexibility to address consultation within their organizations. For example, consider removing “detailed” from paragraph 5.38.
- **System of quality control (Paragraph 5.53)** – We understand the importance of monitoring to ensure that the audit organization’s system of quality control is operating as intended. Nevertheless, the reviews performed by engagement team members who identify quality issues prior to the completion of the engagement can be essential to the monitoring process and should not be discounted. Quality issues identified prior to an engagement completion could provide insight that changes in the audit organization’s policies and procedures, practices and so forth are needed. These organizational level issues might not be resolved prior to completion of an audit and might not be apparent based on inspecting a sample of engagements while performing monitoring procedures. As such, audit organizations may choose to review quality issues identified during engagements as part of their monitoring process to determine if these issues are relevant, systemic, and repetitive. This review, with the performance of other monitoring procedures, can help an audit organization to determine if corrective action is needed. Therefore, consider modifying the language at paragraph 5.53 to permit the review of issues identified during an engagement to be part of the monitoring process but not be a substitute.
- **Readability considerations for Chapter 5 and 6:**
 - **Paragraph 5.54** – This paragraph introduces “inspection procedures,” however, these procedures are not defined until paragraph 5.56. Therefore, consider having paragraph 5.56 come before paragraph 5.54 to help improve readability or include a definition at paragraph 1.23.
 - **Paragraph 5.62** – It appears that the monitoring documentation requirement in paragraph 5.62 relates to paragraphs 5.42 through 5.57. If this is the case, consider moving paragraph 5.62 (monitoring documentation) before paragraph 5.58 (investigating complaints) to help improve readability.
 - **Paragraph 6.04** – Consider **changing** the language in paragraph 6.04 to read “Auditors engaged to conduct financial audits **of entities operating inside** the United States...” This will help with readability by mirroring paragraph 6.05. Consider changing the language at paragraphs 7.07, 7.69 and 7.82 as well.
- **Recognized organizations (Paragraph 5.63 through 5.113)** – ALGA appreciates recognition of their established peer review program and to be able to provide this affordable and quality program to ALGA members. We have the following two considerations to help improve upon the inclusion of recognized organizations in the exposure draft as discussed at paragraph 5.64:
 - The GAO should determine if other organizations, not listed at paragraph 5.64, could become a recognized organization. If other organizations are permitted, paragraph 5.64 should be modified to explain that the list of recognized organizations is not complete and then reference readers to where a complete listing will be maintained.
 - This section also does not address how a recognized organization, like ALGA, maintains that recognition. The peer review program established by the recognized organizations should still meet the minimum GAGAS peer review requirements. As such, there should be a mechanism to ensure that recognized organizations maintain an adequate peer review program in accordance with GAGAS.

- **Peer review report publication requirements (Paragraphs 5.109 and 5.110)** – Paragraph 5.109 reads as requiring different publication requirements for both external and internal audit organizations. The external audit organization requirement is to make the peer review report publicly available. The requirement for internal audit organizations that report to management and those charged with governance is to provide the peer review report to those charged with governance. Paragraph 5.110 uses “audit organization” when discussing how to satisfy this publicly available publication requirement. By using “audit organization” in 5.110, one could reasonably assume that the 5.110 requirement could apply to both internal and external audit organizations. We feel that the intent of 5.110 was to be applied to external audit organizations. Internal audit organizations should include in their policies and procedures the decision to make their peer review report publicly available or not. Therefore, if the intent of 5.110 is to be applied only to external audit organizations, consider **changing** “audit organization” in 5.110 to “**external audit organization**” **or** creating two separate paragraphs with one specifically about external audit organizations and the other about only internal audit organizations.
- **Communication with management (Paragraph 8.20)** – The application guidance following this requirement does not clearly explain what is meant by “...communicate an overview of the objectives, scope, and methodology...” At times, the methodology is not fully developed due to the complex and highly ambiguous nature of the performance audit. Secondly, it might not be appropriate to share the methodology with the auditee in order to ensure that sufficient, appropriate evidence can be obtained. The examples provided in paragraph 8.24 (unannounced procedures, indications of fraud) are naturally going to require anonymity. As such, consider adding language in the application guidance section to acknowledge that the methodology might not be solidified and to expand on the reasons a methodology might not be communicated. This will allow audit organizations the flexibility to apply judgment when providing these communications.
- **Early communication (Paragraph 8.25)** – The last sentence at paragraph 8.25, “When a deficiency is communicated early, the reporting requirements and application guidance in paragraphs 9.24 through 9.35 still apply,” can be written more clearly. We believe the intent of this sentence is that early communication does not necessarily exempt the audit organization from the reporting requirements in chapter 9. In addition, the early communication could involve a situation that is considered sensitive or confidential in nature and would be excluded from the reporting requirements in chapter 9.

Therefore, we suggest that the last sentence in this paragraph be **changed** to:

When a deficiency is communicated early, the auditor will use professional judgment to determine if the reporting requirements and application guidance in paragraphs 9.24 through 9.35 and 9.58 through 9.64 still apply.

- **Entity objectives (Paragraph 8.38)** – Paragraph 8.38.a and 8.38.c both refer to the entity’s objectives. Is the consideration of the entity’s objectives repeated twice or are there differences between the two? If there are distinct differences, then consider clarifying those differences. This might be accomplished through defining the three categories of entity objectives at paragraph 8.38.c which was previously discussed under the first comment provided above.
- **Fraud, waste, and abuse (Paragraphs 8.69 through 8.76)** – The requirement related to fraud, waste, and abuse (paragraphs 8.69 through 8.71) should be revised to clearly demonstrate that the auditor is not required to perform audit procedures to **detect** abuse or waste due to the subjective nature of these types of acts. Paragraph 8.76 addresses this related to abuse; however, the detection and subjectivity of waste is not addressed in the application guidance section. This clarification should be in the requirement section and not the application guidance section to clarify the requirement related to abuse and waste.

- **Wording considerations for Chapter 8 –**

- Paragraph 8.18 – Consider adding “, but are not limited to” at the end of “Examples of criteria include...” This addition will help further clarify that the list is not exclusive.
- Paragraph 8.36 – Consider expanding upon paragraph 8.36 to address the use of previous audits and engagements when deemed appropriate by the engagement team. Paragraphs 6.11.f and 6.36 in the 2011 standards provide that the auditors should evaluate whether the audited entity has taken appropriate corrective action to address findings and recommendations from previous engagements that are significant within the context of the audit objectives. This information should be used in assessing risk and determining the nature, timing, and extent of current audit work. At times, audit organizations perform audits over programs or activities that were previously audited by the same organization. The audit could be performed by a different engagement team than the previous audit. As such, the engagement team could find it beneficial to review prior audit reports and engagement documentation to help plan the audit and perform follow-up work as needed. 6.11.f and 6.36 were not incorporated in chapter 8 of the exposure draft.
- Paragraph 8.37 – Consider adding the word “assess” to read “Auditors should assess and document the significance of internal control to the audit objectives.” This will improve upon the clarity of the requirement by mirroring the requirement at paragraph 8.43.
- Paragraph 8.53 – Consider deleting paragraph 8.53 in the application guidance section. It repeats the requirement provided at paragraph 8.52.
- Paragraph 8.56 – Consider clearly addressing the distinction between evaluating internal controls that are significant to the audit objectives versus the audit objective being to evaluate internal control. This distinction could be further addressed around paragraph 8.42 or in paragraph 8.56. For example, paragraph 8.56 could be modified to read:

Internal control deficiencies can stand alone as a finding or could be the root cause of a finding, such as noncompliance. When internal control deficiencies are a finding, the requirements related to developing the four elements of a finding in paragraph 8.114 apply. When determining the cause of ...”

This distinction is also further discussed in paragraphs 8.115 and 8.122, however, to improve readability it would be helpful to provide this discussion at the beginning of the internal control section within chapter 8.

- Paragraph 8.114 – Consider adding “and document” after the term “develop.” This will allow the deletion of the sentence at paragraph 8.118, which states, “The condition is determined and documented during the audit.” This will help clarify that the need for documenting the development of a finding can apply to all four elements and not just the condition.
- Paragraph 8.117 – Consider moving the last sentence “Criteria provide a context for evaluating evidence and understanding the findings, conclusions, and recommendations included in the report” before the sentence “For audit objectives that pertain to the current status or condition of a program, sufficient, appropriate evidence is gathered...” to improve readability. To further improve readability consider changing the section that starts with “For audit objectives that pertain to the current status or condition of a program...” to how it is written in the 2011 version at A6.03. A6.03, which provides why this information is important to the criteria element.

- **GAGAS statement for internal audit organizations (Paragraph 9.03)** – Consider including a GAGAS statement in paragraph 9.03. Currently, paragraph 9.03 does not provide what language should be used to make a GAGAS statement concerning internal audit independence. The statement should also explain what independence is and explain what is meant by internal audit organization. This will help the audit organization better serve the users of the audit report by clearly describing and defining terms that may not be understood by the users of the report.
- **Reporting on internal control (Paragraph 9.24)** – Paragraph 9.24.1 discusses the reporting on internal control, which includes reporting on how the auditors considered the concept of accountability for use of public resources and government authority while assessing audit risk associated with internal control. These concepts are not addressed in the internal control section of chapter 8 nor is there a reference to chapter 1 where the concepts are discussed. If there is a need for these concepts to be addressed in the audit report, the concepts should be mentioned in the internal control section of chapter 8 to ensure that the concepts are considered as part of the audit and prior to writing an audit report. Furthermore, providing application guidance on these concepts will help users with implementation.
- **Reporting on internal control speculative language (Paragraph 9.25)** – Consider removing paragraph 9.25 because it could hinder the users understanding of the audit results and does not improve upon the report content. Including speculative language could imply to users of the report that the audit is not credible and cannot be relied upon, when in fact, it can be. Furthermore, the inclusion of the language proposed in 9.25 would not change the underlying audit results and, as such, is unnecessary.
- **Waste (Chapter 6, 7, 8 and 9)** – We have concerns about the subjective nature of waste and the extent to which this subjectivity could negatively influence the relationship between the audit organization and the audited entity. As such, the application guidance should acknowledge that the audit organization has the discretion to use language that is customary with the audited subject/program instead of using the term “waste.” This will help maintain a positive relationship while still addressing the requirement. It could also help to address in the application guidance that the identification of inefficiencies or cost savings are not always indications of waste.

In addition, since waste is subjective it would be beneficial if the GAO could provide examples of qualitative materiality/significance when discussing waste in the application guidance sections.
- **Overall** – We found that the *Summary of Major Changes* provided in the exposure draft was helpful to identify key changes. We recommend that the GAO consider providing a crosswalk document between the 2011 and final version. This will be beneficial to audit organizations when updating their policies and procedures.

Respectfully submitted,

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