



**Richard F. Chambers**  
Certified Internal Auditor  
Qualification in Internal Audit Leadership  
Certified Government Auditing Professional  
Certification in Control Self-Assessment  
Certification in Risk Management Assurance  
*President and Chief Executive Officer*  
T: +1-407-937-1200  
E-mail: richard.f.chambers@theiia.org

June 26, 2017

United States Government Accountability Office  
441 G Street, NW  
Washington, D.C. 20548

Response e-mailed to: [YellowBookComments@gao.gov](mailto:YellowBookComments@gao.gov)

***Re: Yellow Book – 2017 Exposure Draft***

Dear Sir/Madam:

On behalf of more than 190,000 global members of The Institute of Internal Auditors (IIA), including nearly 12,000 federal, state, and local government auditors in the United States, thank you for the opportunity to comment in support of the 2017 updates to the Generally Accepted Government Auditing Standards, commonly known as the “Yellow Book.” The Yellow Book’s standards and guidance for auditors and audit organizations provide critical information for federal, state, and local government programs regarding audit reports, professional qualifications for auditors, and audit organization quality control.

We congratulate you on the extensive revision process undertaken, including incorporating input by the Comptroller General’s Advisory Council on Government Auditing Standards and from public comments, such as ours.

This modernized version of Government Auditing Standards will help further the integrity of the profession and its practitioners. The IIA remains committed to assisting public sector auditors in their duties as part of our overall efforts to elevate the role and stature of internal audit. The IIA’s American Center for Government Auditing was created specifically to provide thought leadership and training to local, state, federal, and quasi-governmental auditors at all levels, including those with limited resources. In June, our members received exclusive thought

leadership that identifies, discusses, and suggests approaches to resolving common issues faced by public sector organizations that strive to follow both The IIA's International Professional Practices Framework (IPPF) and GAGAS.

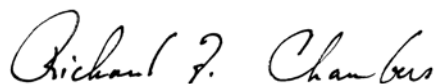
Overall, the proposed changes look positive and are not in conflict with The IIA's *International Standards for the Professional Practice of Internal Auditing*. Specifically, a review by our governmental internal audit community did not raise great concerns. We believe, however, there are a few areas to note:

- In general, the revised format benefits by differentiating requirements from guidance. However, there is quite a bit of conditional, "should" language in the requirements, which may be confusing. We strongly recommend clarification if the reference is to a Standard that is intended to be mandatory. We believe "should," "may," or "shall" be replaced with "must," where applicable.
- While this appears to be quite a major rework of GAGAS, it is challenging to identify the impact of all the proposed changes by viewing the "Summary of Major Changes." We feel a redline version is needed to fully assess all the changes that were made.
- Regarding independence, the reference to internal auditors as reporting to senior management within the audited entity implies that government internal auditors are not independent. Government internal auditors – indeed, all internal auditors in the public and private sectors – are independent, as expressed in The IIA's *Standards*. It is imperative that government auditors be independent of the areas they review. (See Question 2 response.)

Details on these and other comments are provided in Attachment A for your consideration. We agree that a revised Yellow Book will help auditors of government entities carry out high-quality work that reflects competence, integrity, objectivity, and independence.

We appreciate the opportunity to provide our response to this draft. If you have any questions about our response or would like to discuss further, please contact Kathy Anderson, The IIA's Managing Director of North American Advocacy. Ms. Anderson can be reached at [kathy.anderson@theiia.org](mailto:kathy.anderson@theiia.org) or 407-937-1291.

Sincerely,



Richard F. Chambers, CIA, QIAL, CGAP, CCSA, CRMA  
President and Chief Executive Officer

***About The Institute of Internal Auditors***

***The Institute of Internal Auditors (IIA) is the internal audit profession's most widely recognized advocate, educator, and provider of standards, guidance, and certifications. Established in 1941, The IIA today serves more than 190,000 members from more than 170 countries and territories. The association's global headquarters are in Lake Mary, Fla. For more information, visit [www.theiia.org](http://www.theiia.org).***

**Attachment A**  
**The Institute of Internal Auditors' Response to the**  
**Generally Accepted Government Auditing Standards 2017 Exposure Draft**

Following are comments by The Institute of Internal Auditors (IIA) relevant to its review of the GAGAS 2017 draft. On doing the review, we focused on Enclosure I: Summary of Major Changes and based our specific comments on Enclosure II: Questions for Commenters.

**General comments after review of proposed changes:**

- The proposed changes look positive and are not in conflict with The IIA's *International Standards for the Professional Practice of Internal Auditing*. Specifically, a review by our governmental internal audit community did not raise great concerns.
- In general, the revised format benefits by differentiating requirements from guidance. However, there is quite a bit of conditional, "should" language in the requirements, which may be confusing. We strongly recommend clarification if the reference is to a Standard that is intended to be mandatory. We believe "should," "may," or "shall" be replaced with "must," where applicable.
- While this appears to be quite a major rework of the GAGAS, it is challenging to identify the impact of all the proposed changes by viewing the "Summary of Major Changes." We feel a redline version is needed to fully assess all the changes that were made.

**Enclosure II: Questions for Commenters**

**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.**

**The IIA agrees with the new format.**

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.**

**Regarding independence of governmental internal auditors, IIA Standards recommend organizational placement of the chief audit executive (CAE) reporting functionally to the board. This is also a model that holds true for public sector/government internal auditors to assure their independence. While there is not a governing board for some government entities to whom the CAE can report (e.g., elected officials or appointed offices), those CAEs must still report to the highest level to assure their independence. While this is not new in the Exposure Draft, the reference to internal auditors as reporting to senior management within the audited entity is problematic. This is compounded in the Exposure Draft because of further discussion about independence and reporting relationships. In our opinion, it promotes the false impression that government internal auditors are not independent.**

**Government internal auditors – indeed, all internal auditors in the public and private sectors – are independent, as expressed in The IIA’s *Standards*. It is imperative that government auditors be independent of the areas they review.**

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?**

**The IIA somewhat agrees with the proposed changes. In addition, the level of proficiency expectations is clear.**

**In para. 4.09, we recommend that, if the requirement is mandatory, characterizations such as, “Audit organizations and engagement teams may consider the levels of proficiency. . .,” the language be changed to “must” to ensure clarity.**

**In para. 4.24, consider adding a reference to The IIA’s *International Standards for the Professional Practice of Internal Auditing* and/or The IIA’s *International Professional Practices Framework (IPPF)* to provide further clarification.**

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.**

**No additional recommendations.**

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?**

**No additional recommendations.**

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?**

**The IIA agrees with the following comment:**

**Para 5.09, 5.2-5.24, and other paragraphs where the conditional “should” is used: If the intent is for this to be a mandatory requirement, then the requirement should indicate “must.” If not mandatory, then “may” or “should” is appropriate. Note: This point also applies where “may” is used.**

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?**

**Yes, with the following exception:**

**Clarify “should” vs. “must” for most standards noted (see previous comment).**

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.**

**The IIA believes it is appropriate, with the following exception:**

**Para 7.08 indicates “should.” Again, if this is mandatory, then it should state “must.” (This applies to many other requirements and should be reviewed.)**

8. *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?**

**Yes, with the following exception:**

**Clarify “should” vs. “must” for most standards noted (see previous comment).**