



November 24, 2015

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GAO's Response to the American Institute of Certified Public Accountants' September 2015 Exposure Draft, *Maintaining the Relevance of the Uniform CPA Examination*

This letter provides the U.S. Government Accountability Office's (GAO) comments on the American Institute of Certified Public Accountants' (AICPA) exposure draft entitled *Maintaining the Relevance of the Uniform CPA Examination*. GAO promulgates generally accepted government auditing standards (GAGAS), which provide professional standards for auditors of government entities in the United States. GAO also performs annual financial audits of the financial statements of the U.S. government, Internal Revenue Service, the Securities and Exchange Commission, and several other federal entities. GAO is also one of the sponsors of the Federal Accounting Standards Advisory Board (FASAB), which promulgates generally accepted accounting principles for federal reporting entities. We are limiting our response to Question III of the exposure draft as this question addresses the areas of foremost concern to GAO.

Question III of the exposure draft asks, "Are there significant areas of content missing from the detailed blueprints that should be included?" We appreciate the inclusion of the government auditing standards' ethics and independence requirements in the auditing and attestation section in the blueprints. However, the blueprints exclude federal government accounting and significant government auditing content. Newly licensed certified public accountants (CPAs) with knowledge and skills in these areas are vital to effective governmental accounting, financial reporting, and auditing. We believe that the inclusion of these topics on the CPA exam would result in increased attention and awareness by students and by college and university accounting programs. Specifically, we recommend including the following in the CPA exam: (1) the FASAB's roles and responsibilities and the objectives of federal financial reporting and (2) expanded coverage of GAGAS fieldwork and reporting requirements. Our reasons for making these recommendations are discussed in the following paragraphs.

Federal Financial Reporting

The AICPA acknowledged the FASAB's major role in public accountability in 1999, when it recognized the FASAB as the standards-setting body that promulgates GAAP for federal reporting entities. Federal financial reporting provides the public with critical information on a substantial part of the U.S. economy. Annual financial reports are prepared for the federal government as a whole and by most federal government entities, which serve a broad range of sectors and interests in the U.S. economy including, for example, agriculture, banking, and transportation. In fiscal year 2014, CPA firms served as the financial auditors for 29 of 37 large federal entities that issued audited entity-wide annual financial statements. The other eight entities were audited by GAO or their respective inspectors general. CPAs play a critical role in

both financial statement preparation for and auditing of these entities. The users of federal financial reports include the Congress, managers in government, citizens, and citizen intermediaries (e.g., journalists and policy/research institutes). Coverage of the FASAB standards on the CPA exam would foster the development of a skill set that is of the utmost importance to meeting the objectives of federal financial reporting: budgetary integrity, operating performance, stewardship, and systems and controls.

Government Auditing Standards

Professional organizations, including the AICPA, have raised concerns about the quality of governmental audits. Often, the source of these concerns can be traced to inconsistencies in the application or understanding of government auditing standards. Significantly, the AICPA's Governmental Audit Quality Center is one of only three audit quality centers established by the AICPA to help CPA firms meet the challenges of specific high-risk areas of practice. We believe that the AICPA could further its efforts to raise the profile and improve the understanding of government auditing standards by expanding the coverage of GAGAS on the CPA exam.

GAGAS embodies the concept of accountability to the Congress, state and local governments, managers in government, and citizens for government's stewardship of public resources. In addition to the AICPA's requirements for financial audits and attestation engagements, auditors citing GAGAS in their reports comply with requirements that address the specific needs of those who rely on government financial reporting in their decision making. For example, auditors complying with GAGAS communicate in their audit reports identified significant deficiencies and material weaknesses in internal control and significant fraud and noncompliance with provisions of laws and regulations, along with identified material noncompliance with contracts and grant agreements and abuse. Audits that should comply with GAGAS include:

- Single Audits. Each year, the federal government provides over \$400 billion in grants to state and local governments and non-profit organizations. The Single Audit Act provides audit requirements for state and local governments and non-profit organizations that annually expend \$500,000 or more of federal awards. Single Audits are a front-line accountability mechanism supporting sound financial management and effective internal control with respect to these grants.
- Federal financial statement audits. (See our discussion of federal financial reporting above.)
- Federal contract audits. For example, the Defense Contract Audit Agency (DCAA) provides audit services to the Department of Defense and other federal entities that play a critical role in oversight of companies that provide billions of dollars of goods and services to the federal government. DCAA's contract audits are to conform to the GAGAS attestation standards.
- Other audits at the federal, state and local government levels as required by law or regulation.

The federal, state, and local governments' major role in the U.S. economy and the important additional audit areas covered by GAGAS underscore the need for newly licensed CPAs to understand the GAGAS requirements to help ensure the accountability and transparency of government funds.

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Governmental financial reporting and auditing are essential to public accountability and to an efficient and effective public sector. The FASAB and its standards and GAGAS serve critical functions in protecting the public interest and are highly relevant to the public accounting

profession. A practical understanding of them should be part of the skill set of all newly licensed CPAs.

Thank you for the opportunity to comment on this exposure draft. If you have questions about this letter or would like to discuss any of the matters it addresses, please contact me at (202) 512-3133 or dalkinj@gao.gov or Eric Holbrook, Assistant Director, at (202) 512-5232 or holbrooke@gao.gov.

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is stylized with a large initial "J" and a long horizontal stroke at the end.

James R. Dalkin
Director
Financial Management and Assurance