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Mr. Michael Decker
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American Institute of Certified Public Accountants
Princeton South Corporate Center
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Ewing, NJ 08628

GAO's Response to the American Institute of Certified Public Accountants' December 2019 Exposure Draft and Invitation to Comment, *Maintaining the Relevance of the Uniform CPA Examination*

Dear Mr. Decker:

This letter provides GAO's response to the American Institute of Certified Public Accountants' (AICPA) exposure draft and invitation to comment, *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.¹ GAGAS provides a framework for conducting high-quality audits of government awards with competence, integrity, objectivity, and independence.

GAO generally agrees with the practice analysis's (PA) direction, including its focus on the knowledge and skills required of newly licensed certified public accountants (nICPA). However, we are concerned about the exposure draft's proposed changes to GAGAS exam content. In our opinion, government auditing knowledge and skills are critical for nICPAs. We believe that the Uniform CPA Examination (CPA Exam) should maintain the current content related to GAGAS. In our view, auditors that have recently taken or passed the CPA Exam are regularly staffed to governmental audit teams, and it is crucial for nICPAs to have an understanding of and be able to apply GAGAS independence and ethics requirements when conducting these audits. The public interest in government spending, the number of organizations required to comply with government auditing standards, and the quality issues in this area demonstrate the need for the AICPA to test potential CPAs in government auditing standards.

We also encourage the AICPA to consider maintaining content related to government accounting standards. We believe that knowledge and skills in government accounting standards are critical for nICPAs. For state and local governments, the AICPA could consider focusing on fund accounting and how it differs from for-profit accounting. In addition, we strongly believe that the AICPA should include content in the exam related to basic concepts of federal accounting standards that the Federal Accounting Standards Advisory Board issues, which the AICPA has recognized as the generally accepted accounting principles (GAAP) standard-setting body for federal reporting entities since 1999. As noted above, nICPAs are often members of governmental audit teams, and it is critically important they are familiar with fund accounting. Similar to government auditing standards, government accounting standards have a far-

¹GAO, *Government Auditing Standards: 2018 Revision*, GAO-18-568G (Washington, D.C.: July 2018).

reaching effect on a large number of audits and the accountability of a major portion of the U.S. economy.

Governmental financial reporting and auditing are essential to public accountability and to an efficient and effective public sector. GAGAS serves a critical function in protecting the public interest and is highly relevant to the public accounting profession. The federal, state, and local governments' major roles in the U.S. economy underscore the need for nCPAs to understand GAGAS and for state and local government accounting requirements to help ensure the accountability and transparency of government funds.

It is important that the nCPAs' education and examination prepare them for work in the governmental arena, given the number of organizations required to comply with government auditing and accounting standards. As noted below, a substantial number of GAGAS audits are conducted each year. Several of the audits are performed on government financial reports. Audits that should comply with GAGAS include

- single audits,
- federal financial statement audits,
- federal contract audits, and
- other audits at the state and local government levels as required by law or regulation.

Single audits: According to the Federal Audit Clearinghouse, over 35,000 single audits were submitted in calendar year 2019. Entities such as state and local governments, nonprofit organizations, and Indian tribal organizations receive federal awards. Federal award recipients that expend \$750,000 or more in federal awards in a fiscal year are required to undergo a single audit, which is an audit of an entity's financial statements and federal awards, or a program-specific audit, for the fiscal year. The Federal Audit Clearinghouse also noted that state and local governments submitted approximately 15,000 of the single audits in calendar year 2019. According to the Federal Audit Clearinghouse, federal expenditures reflected in the audits submitted in calendar year 2019 exceeded \$1 trillion.

Federal financial statement audits: 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. In 2019, CPA firms served as the financial auditors for 31 of 39 large federal entities that issued audited entity-wide annual financial statements. The other eight entities were audited by GAO or by their respective inspectors general.

Federal contract audits: For example, the Defense Contract Audit Agency (DCAA) provides audit services to the Department of Defense and other federal entities and plays a critical role in overseeing companies that provide billions of dollars of goods and services to the federal government. DCAA generally conducts its contract audits in accordance with GAGAS and AICPA attestation standards.

Other audits at the state and local government levels: Auditors at the state and local government levels may be required by state and local laws and regulations to follow GAGAS. Also, such auditors may be required by the terms of an agreement or contract to follow GAGAS.

In addition, professional organizations, including the AICPA, have raised concerns about the quality of governmental audits. Often, the source of these concerns is inconsistencies in the

application or understanding of government auditing standards. Significantly, the AICPA established its Governmental Audit Quality Center 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.

We encourage the AICPA to maintain the exam's current GAGAS and state and local accounting government content. We believe that knowledge and skills in this area are important for nCPAs. The AICPA asked specific questions in its request to comment. We respond to these questions below.

Request for Comment

A. Comments requested on the next version of the Uniform CPA Examination (CPA Exam) as defined in this exposure draft (ED).

a. Understanding the business, digital and data-driven mindset and data analytics, and reliance on System and Organization Controls for Service Organizations: Internal Control over Financial Reporting (SOC 1) reports have been identified as the three primary findings affected by technology and impacting the profession and newly licensed CPA (nCPA) practice.

1. How do the findings align with the changes you see impacting nCPA practice? If the primary findings do not align with the changes you see impacting nCPA practice, please provide your view and explain your rationale.

The primary findings of the practice analysis align with the changes that GAO sees affecting nCPAs. We agree that there is a significant increase in reliance on SOC 1 reports and that nCPAs need to understand such reports in the context of the audited entity's internal controls.

b. The Auditing and Attestation (AUD) and Business Environment and Concepts (BEC) section Blueprints are each being reorganized to take a more integrated view of technology and business processes, including information systems, risk assessment, and related internal controls. See changes 7, 8, 13, 23, 26, and 27. The PA findings support this more integrated approach to better assess the knowledge and skills required of nCPAs. These changes add, reorganize, and emphasize content.

Additionally, the PA findings support either deleting certain CPA Exam content or changing the cognitive skill level at which the content is assessed. The proposed deletions and changes are also described in the Proposed Exam Changes section of this document.

2. Do you agree with the proposed Exam changes? If not, please explain your rationale. Responses should address specific changes by number (see proposed changes beginning on page 14).

As noted above, we are concerned that the Blueprint proposes reducing the tested skill level of GAGAS independence and ethics requirements (change 1). In our opinion, an understanding of GAGAS is critical for nCPAs given the expansive use

of GAGAS. We believe that the GAGAS independence and ethics requirements should continue to be tested at the application skill level.

We agree with the changes that add, reorganize, and emphasize content to take a more integrated view of technology and business processes, including information systems, risk assessment, and related internal controls. In particular, we agree with the revisions proposed at change 8 to consider the control environment, significant business processes, and information technology systems more broadly as part of understanding an entity's internal control.

In our view, the AICPA should also consider including exam content related to *Standards for Internal Control in the Federal Government* (Green Book)² in the internal control frameworks content group of the BEC exam section. Entities subject to single audits are required to establish internal controls and can elect to adopt the Green Book as an internal control framework. Federal, state, and local governments also may use the Green Book as a framework for their internal control systems. Given its use throughout the accountability community, we believe that nICPAs should be aware of the Green Book and how it relates to the Committee of Sponsoring Organizations of the Treadway Commission's *Internal Control - Integrated Framework* (revised in 2013).

c. Technology constantly evolves and will continue to impact the work of nICPAs in their role in protecting the public interest. Thus, the CPA Exam will need to continually evolve to ensure the appropriate knowledge and skills are assessed.

3. Are there other areas affected by technology beyond the findings identified in the Practice Analysis — Findings section of this document broadly impacting nICPA practice that should be considered in future revisions to the CPA Exam Blueprints? If so, describe them.

We have not identified any other areas affected by technology beyond the findings in the Practice Analysis — Findings section broadly affecting nICPA practice that should be considered in future revisions to the CPA Exam Blueprints.

4. Based on a review of the CPA Exam Blueprints, do you believe there is additional content that should be removed from the CPA Exam as it is not critical to nICPA practice and the protection of the public interest? If so, describe them.

We have not identified any additional content that should be removed from the CPA Exam.

B. Comments requested for the future of CPA Exam content and structure changes as defined in this ITC.

²GAO, *Standards for Internal Control in the Federal Government*, GAO-14-704G (Washington D.C.: September 2014).

a. **The AICPA proposes to remove the essay question (written communication question) given the limitations of the current assessment and its minimal impact on the overall score as described in the ITC section of this document.**

1. **Given the considerations in the ITC, do you agree or disagree with the recommendation to remove the essay question (written communication question)? Please provide your rationale.**

We agree with the recommendation to remove the essay question. Given that it is not feasible to assess accounting and auditing content knowledge along with basic writing skills through the essay question, we agree with the AICPA's rationale for removing the essay question from the exam.

b. **Given the specialized nature of the content assessed in FAR Area IV - State and Local Governments and thus the potential limited applicability to a majority of nCPAs, the AICPA is considering the potential removal of state and local government accounting content from the CPA Exam as described in the ITC section of this document.**

2. **Given the considerations in the ITC, should accounting for state and local governments continue to be assessed on the CPA Exam? Please provide your rationale.**

In our view, government accounting standards should continue to be assessed on the CPA Exam. As noted above, according to the Federal Audit Clearinghouse, state and local governments submitted approximately 15,000 of the single audits in calendar year 2019, approximately 40 percent of all single audits submitted that year. In addition to those subject to single audits, other state and local governments prepare financial statements. The AICPA could consider focusing on fund accounting and how it differs from for-profit accounting as a way to make this section of the exam more applicable to nCPAs. In addition, we strongly believe that the AICPA should include content in the exam related to basic concepts of federal accounting standards that the Federal Accounting Standards Advisory Board issues, which the AICPA has recognized as the GAAP standard-setting body for federal reporting entities since 1999. Newly licensed CPAs with knowledge and skills in these areas are vital to effective governmental accounting, financial reporting, and auditing. We believe that testing government accounting concepts should be a priority for the AICPA.

Thank you for the opportunity to comment on these important issues. 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.

Sincerely yours,

A handwritten signature in black ink, appearing to read "James R. Dalkin". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

James R. Dalkin
Director
Financial Management and Assurance