

# What the Yellow Book Exposure Draft Looks Like



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# Proposed Revisions



United States Government Accountability Office  
By the Comptroller General of the  
United States

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## GOVERNMENT AUDITING STANDARDS

2017 Exposure Draft

- Format and organization of GAGAS
- Auditor preparation of financials is a ***significant threat to independence***
- 3 party arrangements in government
  - State auditor engages independent auditor for separate auditee
- Specialists
- CPE
  - **4 Hours Required CPE each time new version of GAGAS released**
- **Quality control and peer review**
- Clarified definition of waste
- SSAE 18 and SSARS 21 (Reviews) incorporated into GAGAS
- Application of COSO to GAGAS
- **Final issuance expected in 2018**

GAO-17-313SP

# Proposed Revisions (continued)

- Enhanced internal control testing for
  - Financial audits
  - Examinations
  - Performance audits
- New GAGAS provisions for review engagements
- Updated management assertions in examinations and reviews
- Supplemental guidance from 2011 Yellow Book appendix is removed or incorporated into chapters as applicable



# Chapters in the Proposed GAGAS

- Chapter 1 – Government Auditing: Foundation and Principles for the Use and Application of Generally Accepted Government Auditing Standards
- Chapter 2 – General Requirements for Complying with Government Auditing Standards
- Chapter 3 – Ethics, Independence and Professional Judgment
- Chapter 4 – Competence and Continuing Professional Education
- Chapter 5 – Quality Control and Peer Review
- Chapter 6 - Standards for Financial Audits
- Chapter 7 - Standards for Attestation Engagements and Reviews of Financial Statements
- Chapter 8 – Fieldwork Standards for Performance Audits
- Chapter 9 – Reporting Standards for Performance Audits



# What is Going on in the Proposed GAGAS

- **Chapter 1**

- The types of GAGAS users are addressed
- Alignment to Integrated Audits (if necessary) due to SAS-130
- Expanded Descriptions of Attestation Engagements, Reviews of Financial Statements and Performance Audits
- Definitions of common terms used in GAGAS
  - Engaging Party
  - Audited Entity
  - Responsible Party
  - Specialist



# What is Going on in the Proposed GAGAS

- **Chapter 2**

- Expanded guidance on how GAGAS does not incorporate the AICPA's Code of Conduct for audits and attestations
  - Recognizes that CPAs may use or may be required to use the AICPA Code

- **Chapter 3**

- **The big deal – expanded standard on preparation of financial statements by auditors – it's a significant threat and needs to be documented how it is remediated**
  - Auditors should
    - Document the threats and safeguards applied to eliminate & reduce threats to an acceptable level **OR**
    - ***Decline to perform the service***



# The Biggest Deal In Chapter 3 – 3.88-3.90

- Auditors *should conclude* the following services involving preparation of accounting records *impair independence*
  - Determining or changing journal entries, account codes, classifications etc., **without obtaining management's approval**
  - **Authorizing** or **approving** entity's transactions
  - Preparing or making changes to source documents **without management's approval**



# The Biggest Deal In Chapter 3 – 3.88-3.90

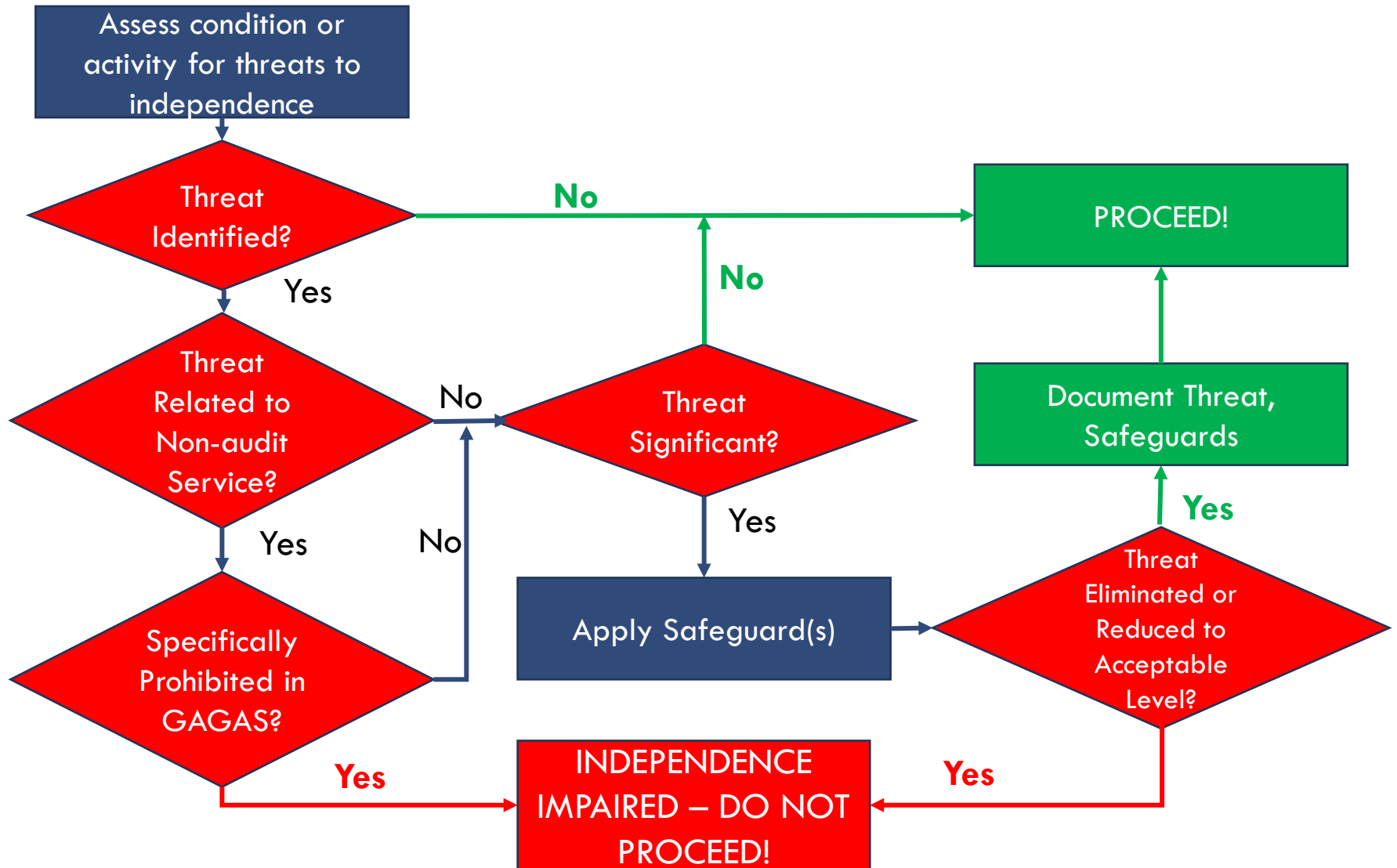
- **Bottom Lines:**
  - In preparing financial statements based on information in the trial balance – auditors will need to:
    - Document threats and safeguards applied to eliminate and reduce threats to an acceptable level or
    - If cannot reduce - decline to perform the services
- **Management is ultimately responsible for the preparation and fair presentation of the financial statements even if auditor drafts**
  - **Skills, Knowledge and Experience of the Client May not Be Enough – key paragraph:**

**3.90** Management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework, even if the auditor assisted in drafting those financial statements. Consequently, an auditor's acceptance of responsibility for the preparation and fair presentation of financial statements that the auditor will subsequently audit would impair the auditor's independence.





# Updated GAGAS Conceptual Framework for Independence





# What is Going on in the Proposed GAGAS

- **Chapter 4 – CPE is the biggest deal**  
**GAGAS Qualification Requirement = 4 Hours of CPE in GAGAS Topics**
- **Supervisors / Partners / Directors** – requirement must be met before completing work on their **FIRST** GAGAS engagement
- **Entry-level staff** – requirement should be met by the end of their first 2 year period
- **After initial 4 hour qualification is met** – auditors should complete at least 4 hours of CPE in GAGAS topic with each revision of the Yellow Book

# CPE and GAGAS Qualification

- CPE should align to relevant GAGAS topics (see following)
- 4 Hours required with each revision of GAGAS
  - Should be completed by end of next 2 year CPE period
  - Documentation must be maintained by audit organization
- 80 Hours of CPE every 2 years – **required as follows (minimum 20 hours per year):**

| Hours    | Subject Matter  |
|----------|---|
| 24 Hours | Standards, statutes, regulations, criteria, guidance <b>applicable to auditing or the objectives for GAGAS engagement(s)</b> being conducted – includes the 4 hours of GAGAS topics for GAGAS qualification when applicable |
| 56 Hours | Subject matter or topics that <b>directly enhance professional expertise to conduct GAGAS engagements</b>   |



# GAGAS Topics that Qualify For CPE - FYI

- Initial GAGAS Topics for 4 hour Qualification to do GAGAS engagements
- Follow Up GAGAS Topics
  - Standards for ethics, independence, professional judgment, CPE, quality control, peer review as established in GAGAS
  - Types of GAGAS engagements
  - Relationship between GAGAS and other standards
  - Stating compliance with GAGAS in the auditors' report
  - Additive GAGAS requirements for
    - Financial audits / examinations
    - Reviews and agreed-upon procedures
  - GAGAS fieldwork standards for performance audits
  - GAGAS reporting standards for performance audits
  - Internal control as addressed in GAGAS



# GAGAS Topics that Qualify For CPE - FYI

- US GAAP or the applicable financial reporting framework, AICPA Statements on Auditing Standards
- AICPA Attestation Criteria, SSAEs, SSARs
- GAO Green Book
- COSO
- *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*
- Programmatic Audit Requirements (ex: HUD)
- Relevant Audit Standards / Guides
- Regulations etc. specific to the industry / environment / subject matter
- Audit methodologies, surveys, actuarial, statistics
- Performance auditing topics, evidence, skepticism
- Ethics and independence



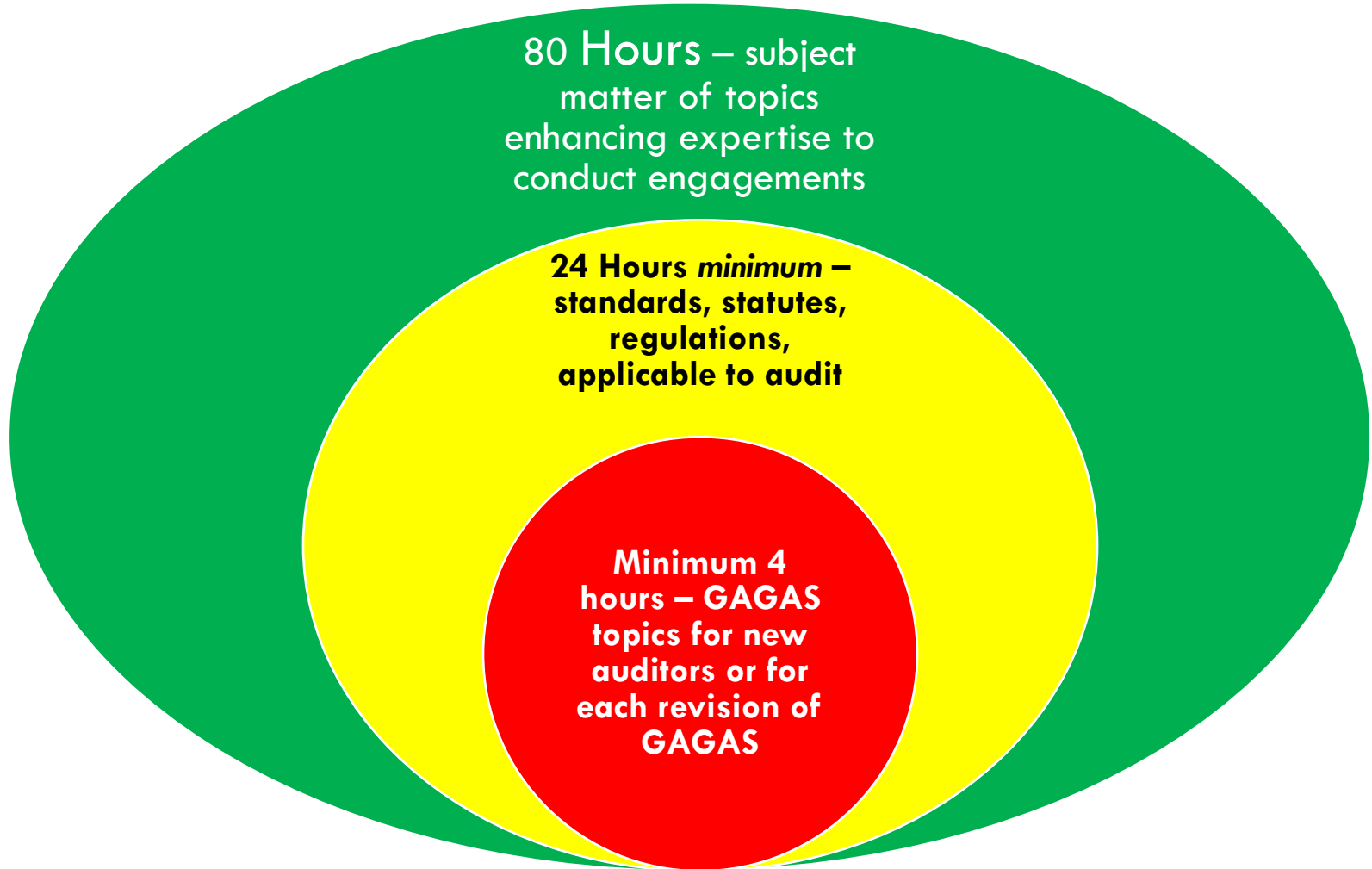
# GAGAS Topics that Qualify For CPE - FYI

- If conducting engagements
  - All previous 2 slides
  - CPE in communicating clearly and effectively oral and written
  - Managing time and resources
  - IT
  - Economics, human capital management, social and political sciences and academic disciplines
- Exceptions from 56 hour requirement but not 24 if
  - Charge less than 20% of time to GAGAS engagements
  - Are only in performing but not planning, directing or reporting

# Exceptions to CPE Provisions

- Exceptions from 56 hour requirement but not 24 if
  - Charge less than 20% of time to GAGAS engagements
  - Are only in performing but not planning, directing or reporting
- Entry level auditors who charge less than 40 hours of time to GAGAS exempted from all GAGAS CPE provisions
- Auditors hired or initially assigned in 2 year period can prorate
- Interns may be exempted
- Over 20 paragraphs of clarifications and application guidance

»»» For those who need a visual aid...







# Competency

- Addressed by role in the engagement

| Roles                         | Definition of Duties   | Level of Ambiguity, Complexity & Uncertainty | Required Level of Proficiency   |
|-------------------------------|--|--|---------------------------------|
| <b>Entry Level</b>            | Plan or perform engagement <b>procedures</b> on engagement   | <b>Low</b>                                   | <b>Basic level</b>              |
| <b>Supervisory</b>            | Plan <b>engagements</b> , perform engagement procedures, or direct engagements   | <b>Moderate</b>                              | <b>At least an intermediate</b> |
| <b>Partners and Directors</b> | Plan engagements, perform engagement procedures, or direct <b>or report on engagements</b> also <b>responsible for reviewing engagement quality</b> prior to issuing the report, for <b>signing the report</b> , or both | <b>High</b>                                  | <b>At least an advanced</b>     |



# Competency of Specialists – almost as big of a deal

- Includes guidance for actuaries, appraisers, attorneys, engineers, environmental consultants, medical professionals, statisticians, geologists, IT experts (among others)
  - Qualifications relate to their professional certifications, reputation, previous work in subject matter
    - Relevant factors still include bias, conflict of interest, management influence
  - Sources of competence include, but not limited to
    - Professional certification(s) / license(s) / reputation / standing
    - Experience
    - Auditor's prior experience using their work
    - Knowledge of industry requirements



# What is Going on in the Proposed GAGAS

## Affiliated with a recognized organization

- Comply with organization's peer review requirements
- Additional peer review requirements related to GAGAS
- Availability of report to the public

## Not affiliated with a recognized organization

- Comply with GAGAS
  - Scope
  - Intervals
  - Peer review team
  - Responses to report
  - Availability of report to the public

**Peer Review Proposed  
Changes in Chapter 5**



# What is Going on in the Proposed GAGAS

- **Chapter 6**

- First time – discusses qualification requirements for auditors conducting financial audits of entities outside the US
- Discussion of auditor procedures on waste
- Expanded findings on waste
- Expanded consideration of internal control deficiencies



# Focus on Waste and Abuse

- **Waste** - act of using or expending resources carelessly, extravagantly, or to no purpose
  - Taxpayers not receiving reasonable value for money in connection with any government-funded activities
  - Involves inappropriate act or omission by parties with control over or access to government resources
    - *May not involve violation of law*
  - Relates primarily to mismanagement, inappropriate actions or oversight



# Focus on Waste and Abuse

- Auditor responsibilities related to waste
  - Perform procedures consistent with abuse
  - Not required to perform procedures to detect abuse or waste
- **Abuse** – behavior deficient or improper in comparison to a prudent person considering reasonable necessary business practices given facts and circumstances
  - Excludes fraud and noncompliance with laws etc.
  - Includes misuse of authority for personal interest
  - **Subjective** – auditors **not required** to perform procedures to **detect abuse**, but may be discovered



# What is Going on in the Proposed GAGAS

- **Chapter 7**

- SSAE 18 (*Attestation Standards: Clarification and Recodification*) incorporated by reference
- SSARS 21 (Section 90) on reviews of financial statements in accordance with GAGAS
  - SSAE 18 and SSARS 21 are beyond the scope of today!
- Qualification requirements for auditors engaged for SSAE 18 engagements outside the US
- Waste and internal control provisions similar to Chapter 6



# What is Going on in the Proposed GAGAS

- **Chapter 8**

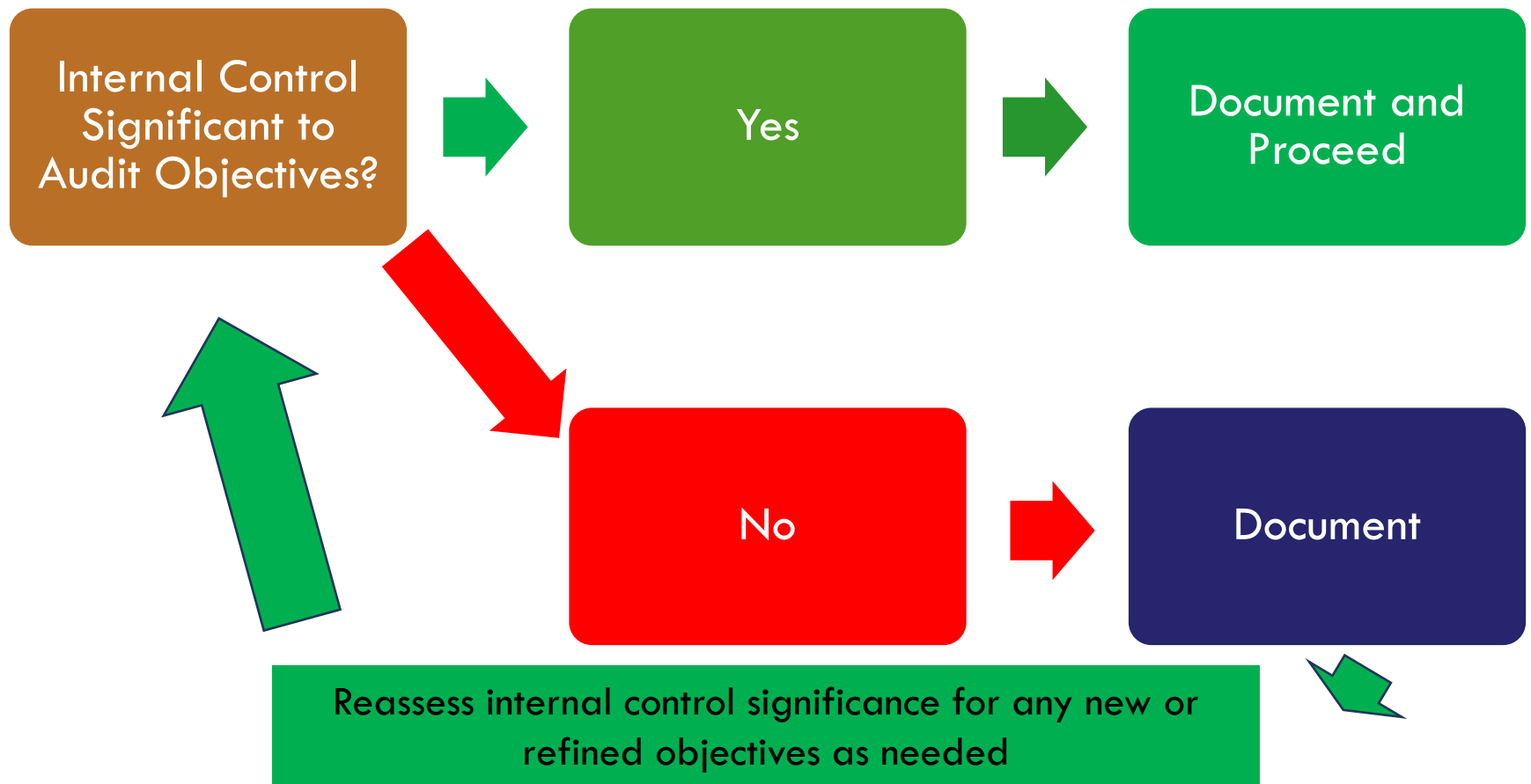
- Revised requirement – management assertions *not required* when conducting a performance audit under GAGAS
- Updated suitable criteria (attributes and examples)
- Internal control alignment to COSO and the Green Book
- Waste and internal control deficiencies elements similar to Chapter 6

- **Chapter 9**

- Revised reporting for audit organizations that are independent under IIA standards
- Report discussion on when internal control is significant
- New report element when all internal control elements not considered
- Findings of waste reporting similar to Chapter 6



# Performance Audits and GAGAS





# Internal Control: Performance Audits

- If Internal Controls are *Significant* to Audit Objectives (Yes), then – again - focusing on *significance*:
  - Obtain and document an understanding of internal control
  - Assess and document internal control
  - Evaluate and document identified internal control deficiencies
  - Consider potential internal control deficiencies when evaluating the cause element of findings
  - Indicate in the audit report that the audit did not consider all internal control components, when applicable



# Performance Audit Reporting in the GAGAS ED

- If reporting on internal controls – performance audit focuses on
  - Scope of work on internal control, including
    - Consideration of the concept of accountability for use of public resources and
    - Government authority while assessing audit risk associated with internal control, and
  - Any deficiencies in internal control that are significant within the context of the audit objectives and based upon the audit work performed
- Insignificant deficiencies include in a written report to those charged with governance
- If not reporting on internal controls – must state it in the report
- Fraud, waste, abuse reporting similar to other chapters

# Questions?



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# Thank You!



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