

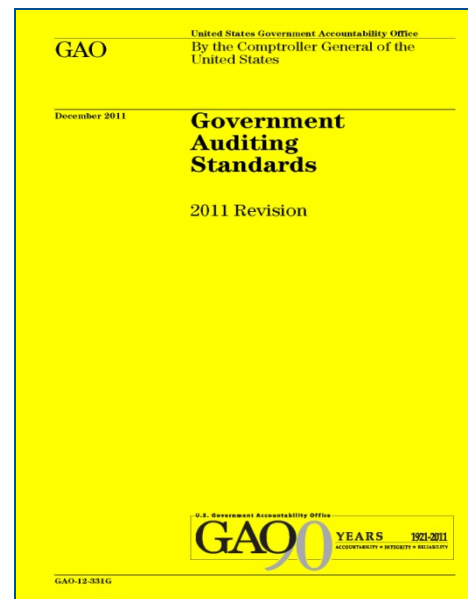


---

# Yellow Book: Overview and Exposure Draft Update

---

Presented to the  
Intergovernmental Forum  
October 31, 2017



U.S. GOVERNMENT ACCOUNTABILITY OFFICE

---

## Session Objectives

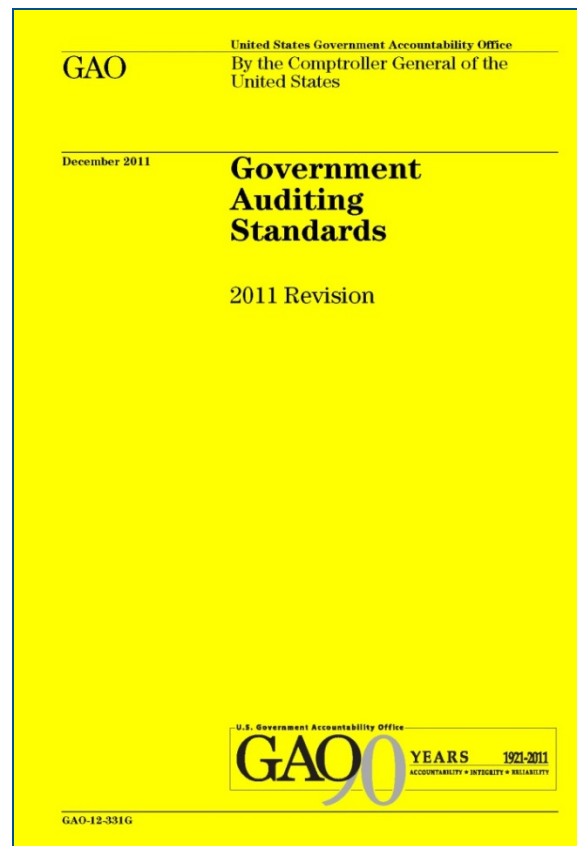
---

- Part 1: What's the Yellow Book all about?
- Part 2: Proposed changes from the Exposure Draft

# Yellow Book = “GAGAS”

---

“Generally Accepted  
Government  
Auditing  
Standards”



## The 2011 Yellow Book: Applicability

---

- Chapters 1, 2, and 3 apply to all GAGAS engagements
  - Chapter 1: Government Auditing: Foundation and Ethical Principles
  - Chapter 2: Standards for Use and Application of GAGAS
  - Chapter 3: General Standards
- Chapter 4: Standards for Financial Audits – applies only to financial audits
- Chapter 5: Standards for Attestation Engagements - applies only to attestation engagements

---

## The 2011 Yellow Book Applicability (Continued)

---

- Chapters 6 and 7 apply only to performance audits
  - Chapter 6: Field Work Standards for Performance Audits
  - Chapter 7: Reporting Standards for Performance Audits
- Appendix: Provides additional guidance (not requirements) for all GAGAS engagements
- Interpretations: Available on the Yellow Book web page. Provide additional guidance (not requirements) for areas of particular interest or sensitivity

---

## Chapter 1: Government Auditing: Foundation and Ethical Principles

---

- Provide a framework for conducting high quality audits with competence, integrity, objectivity, and independence
- For use by auditors of government entities and entities that receive government awards

## Chapter 2: Types of GAGAS Engagements

---

- All audits begin with objectives, and those objectives determine the type of audit to be performed and the applicable standards to be followed.
- The types of audits that are covered by GAGAS, as defined by their objectives, are classified in the Yellow Book as
  - Financial audits,
  - Attestation engagements, and
  - Performance audits.

---

## Chapter 2: Use of Terminology

---

Standardized language to identify auditor requirements

- Consistent with AU-C 200:
  - **Must** indicates an unconditional requirement
  - **Should** indicates a presumptively mandatory requirement
  - Text not using the above conventions is considered explanatory material
- Interpretive publications are recommendations on the application of GAGAS specific circumstances



## Chapter 2: Relationship between GAGAS and Other Professional Standards

---

For financial and attestation engagements, auditors may use GAGAS in conjunction with professional standards issued by other authoritative bodies, including the following bodies:

- AICPA
- IAASB
- PCAOB

For performance audits, auditors may use or may be required to use other professional standards in conjunction with GAGAS.

---

## Chapter 2: Stating Compliance with GAGAS in the Auditors' Report

---

Auditors should cite compliance with GAGAS with either an unmodified or a modified compliance statement.

- **Unmodified:** the auditors have
  - Followed unconditional and applicable presumptively mandatory GAGAS requirements, or
  - Followed unconditional requirements and documented justification for departures from presumptively mandatory requirements and have achieved the objectives of those requirements

## Chapter 2: Stating Compliance with GAGAS in the Auditors' Report

---

Auditors should cite compliance with GAGAS with either an unmodified or a modified compliance statement.

- **Modified:** the auditors
  - Have performed the audit in accordance with GAGAS, except for specific applicable requirements, or
  - Because of the significance of departures the auditor was unable to perform the audit in accordance with GAGAS

## Chapter 3: General Standards

---

- Independence
  - Conceptual framework
- Professional judgment
- Competence
  - Technical knowledge
  - Continuing Professional Education
- Quality Assurance
  - System of quality assurance
  - Peer review

## Independence: Applying the Conceptual Framework

---

1. Identify threats to independence
2. Evaluate the significance of the threats identified, both individually and in the aggregate
3. Apply safeguards as necessary to eliminate the threats or reduce them to an acceptable level
4. Evaluate whether the safeguard is effective

### **Documentation Requirement:**

Para 3.24: When threats are not at an acceptable level and require application of safeguards, auditors should document the safeguards applied.

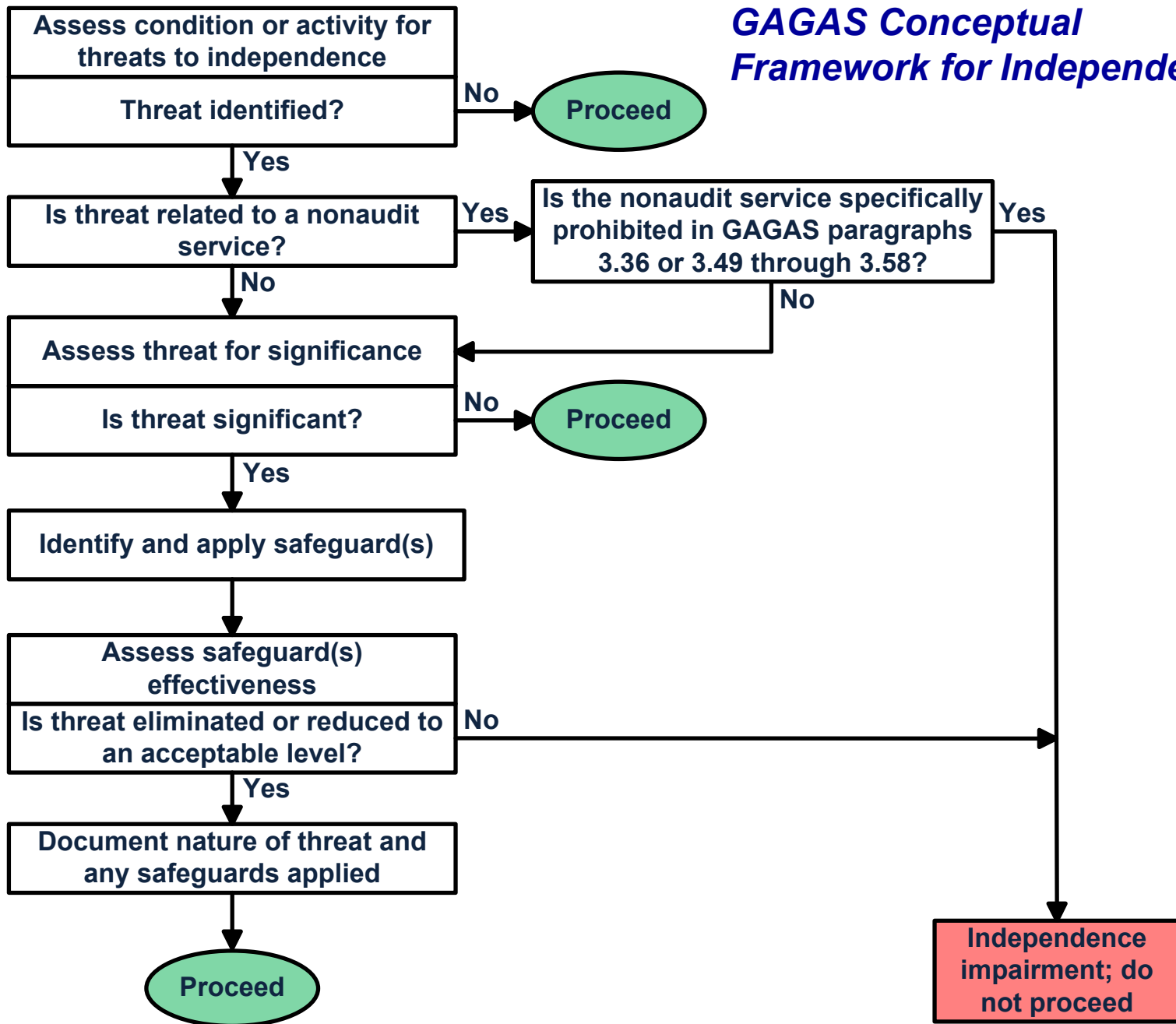
---

## Applying the Conceptual Framework: Categories of Threats

---

1. Management participation threat
2. Self-review threat
3. Bias threat
4. Familiarity threat
5. Undue influence threat
6. Self interest threat
7. Structural threat

# GAGAS Conceptual Framework for Independence



---

## Applying the Conceptual Framework: Safeguards

---

- Reassign individual staff members who may have a threat to independence.
- Have separate staff perform the non-audit and audit services.
- Have professional staff from outside of the team review the work.
- Use or consult with an independent third party.
- Involve another audit organization.
- Decline to do the requested scope of the non-audit service.



---

## Continuing Professional Education

---

- Minimum of 24 hours of CPE every 2 years
  - Government
  - Specific or unique environment
  - Auditing standards and applicable accounting principles
- Additional 56 hours of CPE for auditors involved in
  - Planning, directing, or reporting on GAGAS assignments; or
  - Charge 20 percent or more of time annually to GAGAS assignments
- Minimum of 20 hours of CPE each year

---

## Quality Control and Assurance

---

- Each audit organization performing audits or attestation engagements in accordance with GAGAS must:
  - establish a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with professional standards and applicable legal and regulatory requirements, and
  - have an external peer review at least once every 3 years.
- GAGAS is consistent with AICPA Statement on Quality Control Standards except for when reviews of work and the report are used alone.

## Peer Review

---

- The peer review team uses professional judgment in deciding the type of peer review report. The following are the types of peer review reports:
  - Peer review rating of pass
  - Peer review rating of pass with deficiencies
  - Peer review rating of fail
- GAO developed interpretive guidance on assessing and reporting on the results of peer reviews in the government environment.

## Chapter 4: Financial Audits

---

- Incorporate by reference AICPA Statements on Auditing Standards
- Additive requirements (performing and reporting) for financial audits
- Additional considerations for financial audits

---

## Additional Requirements for Performing Financial Audits

---

Additional requirements relate to

- Auditor communication
- Previous audits and attestation engagements
- Noncompliance with provisions of contracts or grant agreements, or abuse
- Developing elements of a finding
- Audit Documentation

---

## Additional Requirements for Reporting on Financial Audits

---

Additional requirements relate to

- Reporting auditors' compliance with GAGAS
- Reporting on internal control, compliance with provisions of laws, regulations, contracts, and grant agreements
- Communicating deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse
- Reporting views of responsible officials
- Reporting confidential or sensitive information
- Distributing reports

## Chapter 5: Attestation Engagements

---

- Incorporate by reference AICPA Statements on Standards for Attestation Engagements (SSAEs)
- Additive requirements (performing and reporting) for financial audits
- Additional considerations for GAGAS attestations

# Additional Requirements for Performing Attestations

---

Additional requirements relate to

- Auditor communication
- Previous audits and attestation engagements
- Fraud, noncompliance with provisions of contracts or grant agreements, or abuse
- Developing elements of a finding
- Documentation



---

# Understanding Performance Audits

---

- Typically issued as “Finding and Conclusions” reports
- Often report on governmental efficiency and effectiveness.
- Require determination of a criteria
- Require documentation of the audit process, evidence, findings and conclusions

---

## Additional Requirements for Reporting on Attestations

---

Additional requirements relate to

- Reporting auditors' compliance with GAGAS
- Reporting deficiencies in internal control, fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse
- Reporting views of responsible officials
- Reporting confidential or sensitive information
- Distributing reports

## Chapter 6: Performance Audits - Fieldwork

---

- The purpose of field work requirements is to establish an overall approach for auditors to apply in obtaining reasonable assurance that the evidence is sufficient and appropriate to support the auditors' findings and conclusions.
- The field work requirements for performance audits relate to:
  - planning the audit
  - supervising staff
  - obtaining sufficient, appropriate evidence
  - preparing audit documentation

---

## Chapter 6: Performance Audits - Fieldwork

---

- Reasonable assurance: Auditors obtain reasonable assurance that evidence is sufficient and appropriate to support the auditors' findings and conclusions in relation to the audit objectives.
  - Auditor Should Ask: Do we have sufficient evidence to support the findings and conclusions in relation to the audit objectives?
  - Auditor Should Ask: Do we have appropriate evidence to support the auditors' findings and conclusions in relation to the audit objectives?
  - When evaluating potential evidence, it is critical as an auditor to be skeptical and exhibit a questioning mind.

---

## Chapter 6: Performance Audits - Fieldwork

---

- There are different types and sources of evidence that auditors may use, depending on the audit objectives.
- Evidence may be obtained by observation, inquiry, or inspection.
- In terms of its form and how it is collected, evidence may be categorized as:
  - Physical – Obtained by auditors’ direct inspection or observation of people, property, or events (e.g. photos).
  - Documentary – Obtained in the form of already existing information (e.g. contracts, invoices)
  - Testimonial – Obtained through inquiries, interviews, focus groups, public forums, or questionnaires.
- Each type of evidence has its own strengths and weaknesses.

## Performance Audits – Elements of a Finding

---

- Elements needed depend on audit objectives
- Findings are complete to the extent the audit objectives are addressed
- Auditors should plan and perform procedures to develop the elements of a finding necessary to address the audit objectives:
  - Criteria
  - Condition
  - Cause
  - Effect or potential effect

## Performance Audits – Elements of a Finding

---

- Criteria: Standards for what should be
- Condition: What the audit found to be the case
- Cause: The reason the condition deviates from the criteria
- Effect or Potential Effect: The actual or potential consequences of allowing the condition to persist

---

## Example of a Finding

---

- Criteria: City Ordinance 123 says cows should not be permitted on city streets.
- Condition: Cows are roaming on city streets.
- Cause: No one is checking the gate after bringing the cows in from the pasture.
- Effect or Potential Effect: Risk of disrupted traffic patterns and sticky shoes.



## Chapter 6: Performance Audits – Fieldwork

---

- Objectives – What the audit is intended to accomplish
- Scope – Defines the subject matter that the auditors will assess and report on, such as a particular program or aspect of a program
- Methodology – Describes the nature and extent of audit procedures

---

## Chapter 6: Performance Audits – Abuse

---

- Focal Point: Abuse in Performance Audits
- Abuse involves behavior that is deficient or improper when compared with behavior that a prudent person would consider reasonable and necessary business practice given the facts and circumstances.
- Abuse does not necessarily involve fraud, noncompliance with provisions of laws, regulations, contracts, or grant agreements.
- Because the determination of abuse is subjective, auditors are not required to detect abuse in performance audits.
- What You Should Do:
  - If auditors become aware of abuse that could be quantitatively or qualitatively significant to the program under audit, auditors should apply audit procedures specifically directed to ascertain the potential effect on the program under audit within the context of the audit objectives.

---

## Chapter 6: Performance Audits – Fieldwork

---

- Other Standards: Supervision and Documentation
- Audit Supervision
  - Involves providing sufficient guidance and direction to staff assigned to the audit to address the audit objectives and follow applicable requirements.
- Audit Documentation
  - Should prepare audit documentation in sufficient detail to enable an experienced auditor, having no previous connection to the audit, to understand from the audit documentation the nature, timing, extent, and results of audit procedures performed and conclusions reached.

---

## Chapter 7: Performance Audit Reporting - Report Contents

---

Auditors should prepare audit reports that contain

- Objectives, scope, and methodology of the audit
- Audit results, including findings, conclusions, and recommendations, as appropriate
- Statement about the auditors' compliance with GAGAS
- Summary of the views of responsible officials
- Nature of any confidential or sensitive information omitted

---

## Performance Audit Reporting - Views of Responsible Officials

---

Auditors should

- obtain and report views of responsible officials concerning findings, conclusions, recommendations, and planned corrective actions
- include in report an evaluation of the comments, as appropriate

## Performance Audit Reporting - Distributing Reports

---

Distribution of reports depends on

- The relationship of the auditors to the audited organization
- The nature of the information contained in the report

---

## **GAGAS Revision Process**

---

- Exposure draft issued for public comment on April 5, 2017
- Draft incorporates input from the Comptroller General's Advisory Council on Government Auditing Standards
- Public comments were due to GAO no later than July 6, 2017
- Projected final issuance in 2018

## Summary of Key Changes

---

- New format and organization of GAGAS
- Independence threats related to preparing financial statements
- GAGAS Qualification CPE requirement
- Guidance for CPE requirements
- Peer review requirements



## Summary of Key Changes (continued)

---

- Internal control: financial audits and examination engagements
- Internal control: performance audits
- New requirements for addressing waste
- Standards for reviews of financial statements
- Management assertions

---

## Where to Find the Yellow Book

---

- The Yellow Book is available on GAO's website at:  
[www.gao.gov/yellowbook](http://www.gao.gov/yellowbook)
- For technical assistance, contact us at:  
[yellowbook@gao.gov](mailto:yellowbook@gao.gov)  
or call (202) 512-9535

**Thank You**

---

**Questions?**