

Texas State Auditor's Office



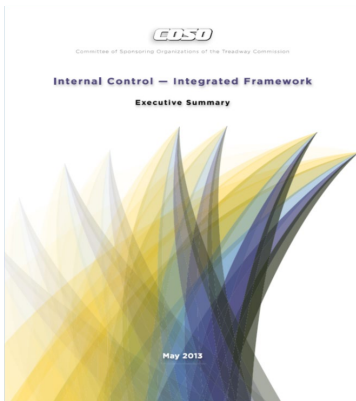
2018 Yellow Book Implementation

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Overview



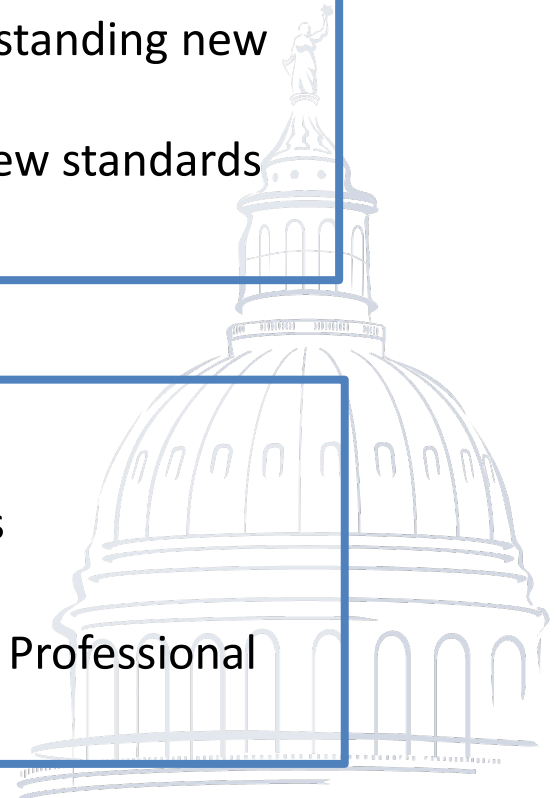
Internal Control

- Discuss approaches to understanding new standards
- Discuss implementation of new standards



Other GAGAS Updates

- Independence Requirements
- Quality Control
- Competence and Continuing Professional Education



Approach to Revisions

Implementation Work Group

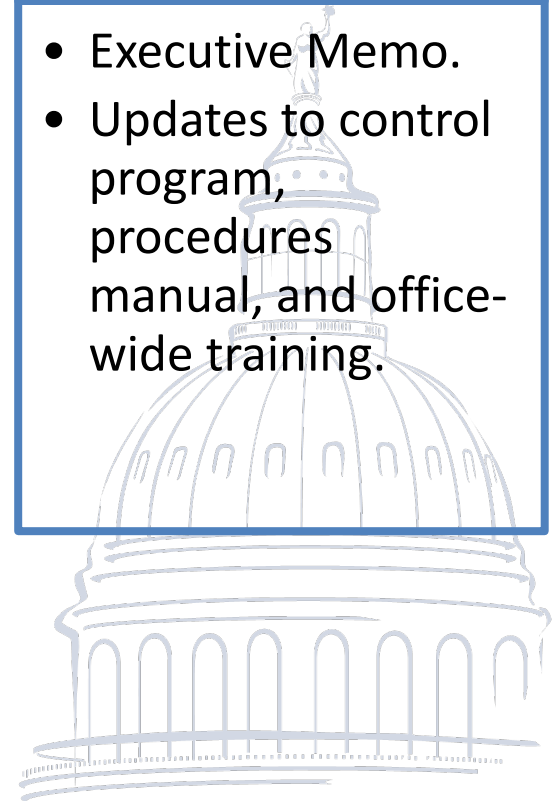
- Reviewed new standards, identified potential gaps in existing processes, and proposed changes related to internal controls.

Audit Process Owners Work Group

- Worked on other GAGAS updates.
- Reviewed work performed by the Implementation Work Group.

Executive Approval and Implementation

- Executive Memo.
- Updates to control program, procedures manual, and office-wide training.



Requirements Related to Internal Control

GAGAS 8.39
– 8.40

- Determining significance and obtaining an understanding of internal control

GAGAS 8.49

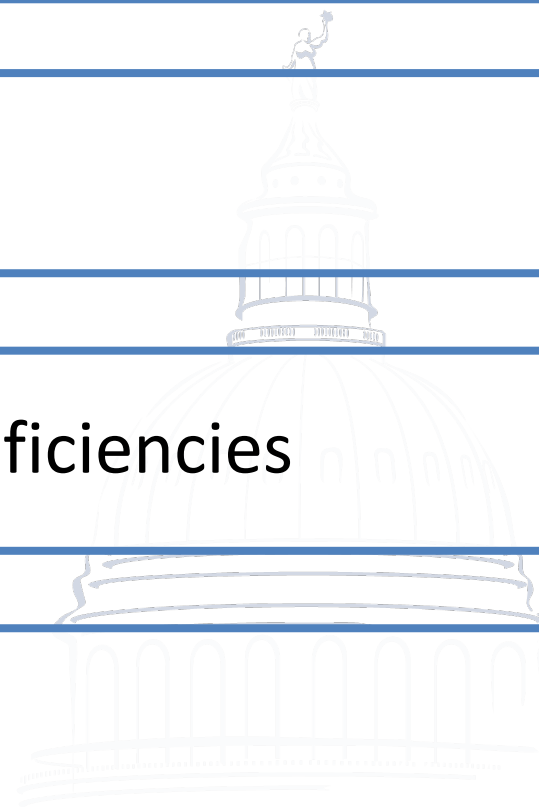
- Assessing internal control

GAGAS 8.54

- Considering internal control deficiencies

GAGAS 9.29
– 9.31

- Reporting on internal control



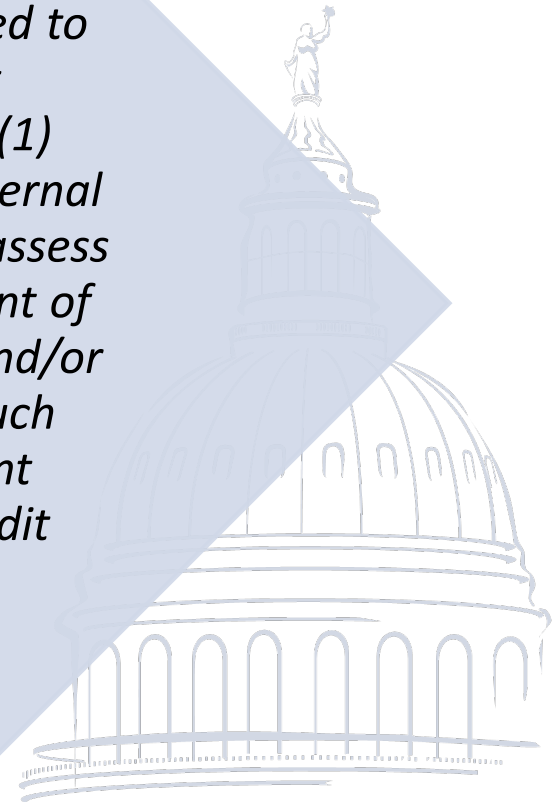


Consideration of Internal Control During Fieldwork



Determine and document whether internal control is significant to the audit objectives (GAGAS 8.39).

If internal control is determined to be significant to the audit objectives, auditors should: (1) obtain an understanding of internal control (GAGAS 8.40), and (2) assess and document their assessment of the design, implementation, and/or operating effectiveness of such internal control to the extent necessary to address the audit objectives (GAGAS 8.49).



Consideration of Internal Control During Fieldwork

Determining Significance (GAGAS 8.42)

- Determine which of the 5 components of internal control and 17 underlying principles are significant to the audit objectives.



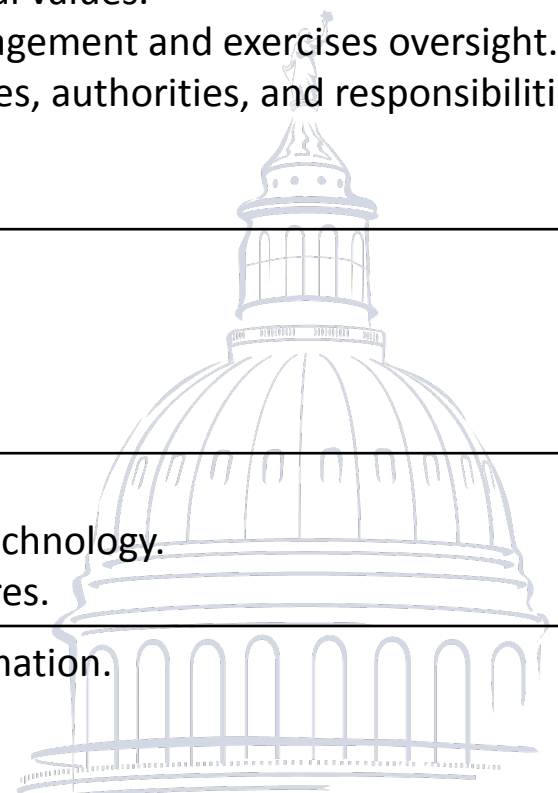
Obtaining an Understanding of Internal Control (GAGAS 8.40)

- Integrate COSO Framework concepts into the process for obtaining an understanding of internal control.
- Obtain an understanding of transaction- and entity-level internal controls related to the significant components and principles.
- Identify and document internal controls.

Consideration of Internal Control During Fieldwork

Summary of COSO Components and Principles

Control Environment	<ol style="list-style-type: none">1. Demonstrating commitment to integrity and ethical values.2. Ensuring that the Board is independent from management and exercises oversight.3. Management establishing structures, reporting lines, authorities, and responsibilities.4. Demonstrating commitment to competence.5. Enforcing accountability.
Risk Assessment	<ol style="list-style-type: none">6. Clearly specifying objectives.7. Identifying and analyzing risk.8. Considering potential fraud when assessing risk.9. Identifying and assessing changes.
Control Activities	<ol style="list-style-type: none">10. Selecting and developing control activities.11. Selecting and developing general controls over technology.12. Deploying controls through policies and procedures.
Information & Communication	<ol style="list-style-type: none">13. Obtaining or generating and using relevant information.14. Communicating information internally.15. Communicating information externally.
Monitoring Activities	<ol style="list-style-type: none">16. Selecting, developing, and performing ongoing and/or separate evaluations.17. Evaluating and communicating deficiencies.



Consideration of Internal Control During Fieldwork

Assessing Internal
Control (GAGAS
8.49)

- Identify key controls.
- Assess and document assessment of the design, implementation, and/or operating effectiveness of such internal control to the extent necessary to address the audit objectives.

Design

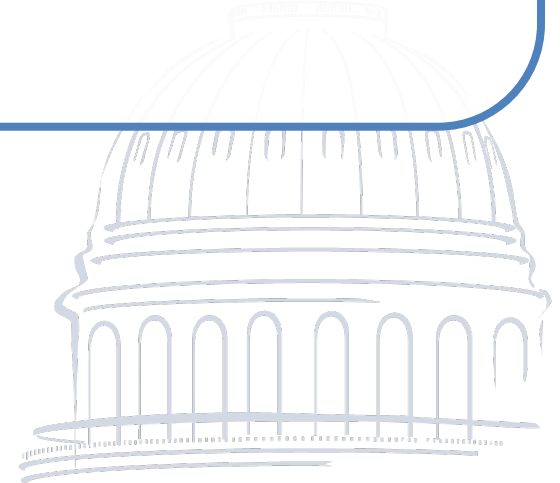
Design and
Implementation

Design,
Implementation, and
Operating
Effectiveness

Consideration of Internal Control During Fieldwork

Internal Control
Deficiencies
Determinations (GAGAS
8.54)

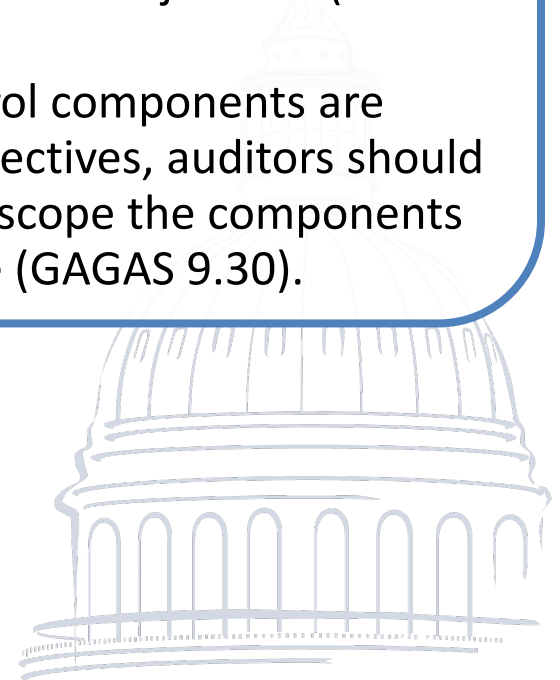
- Evaluate and document the significance of identified internal control deficiencies within the context of the audit objectives, which may include identifying the root cause of internal control deficiencies.



Consideration of Internal Control During Reporting

Reporting on Internal Control (GAGAS 9.29 and 9.30)

- When internal control is significant to audit objectives, auditors should include in the audit report (1) the scope of work on internal control and (2) deficiencies in internal control that are significant to audit objectives (GAGAS 9.29).
- If not all internal control components are significant to audit objectives, auditors should identify as part of the scope the components and principles that are (GAGAS 9.30).






Independence (GAGAS Ch. 3 & 5)

Non-audit Services

- Evaluations for potential impact to future projects, potential threats, and safeguards.

Evaluating Threats to Independence and Documentation of Independence

- Review factors that are relevant in evaluating the independence of the team or organization.
 - Complete annual independence statement and annual reaffirmation of independence.
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Quality Control (GAGAS Ch. 5)

Supervision

- Ensuring that audits are appropriately assigned and reviewers have appropriate levels of skill and proficiency.

Objectives and Prioritizing work with Limited Resources

- Prioritizing audits, monitoring objectives, and documenting changes.

Policies and Procedures

- Ensuring consistency in the quality of engagement performance.

Monitoring of Quality

- Evaluating the effects of deficiencies

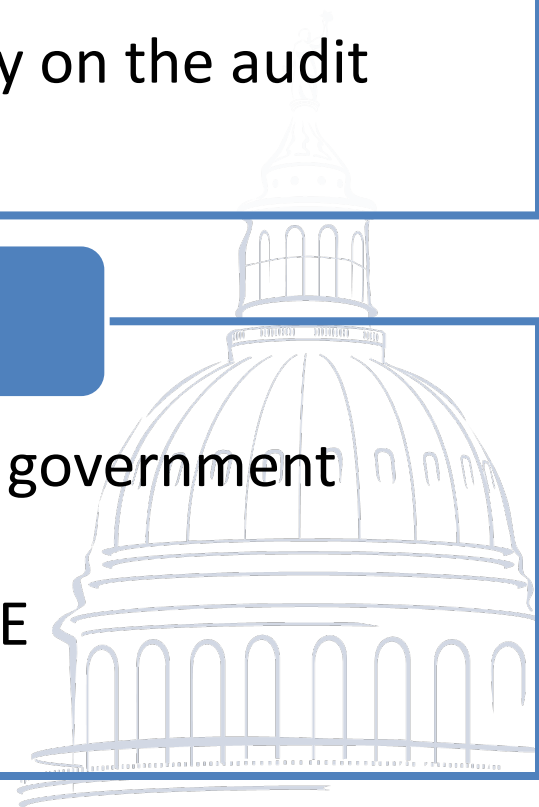


Competence and Continuing Education (GAGAS Ch. 4)

Knowledge, skills, and abilities

- Ensuring required levels of proficiency on the audit team.

CPE Requirements and Documentation

- Ensuring appropriate classification of government and other CPE hours.
 - Monitoring audit compliance with CPE requirements.
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Thank
You!

