

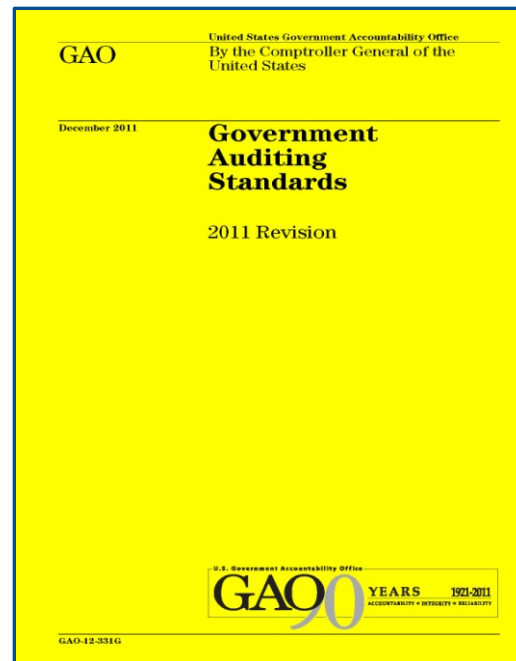


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# UPDATE: YELLOW BOOK EXPOSURE DRAFT 2017

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**James Dalkin**  
**SWIAF/SEIAF**  
**August 10, 2017**

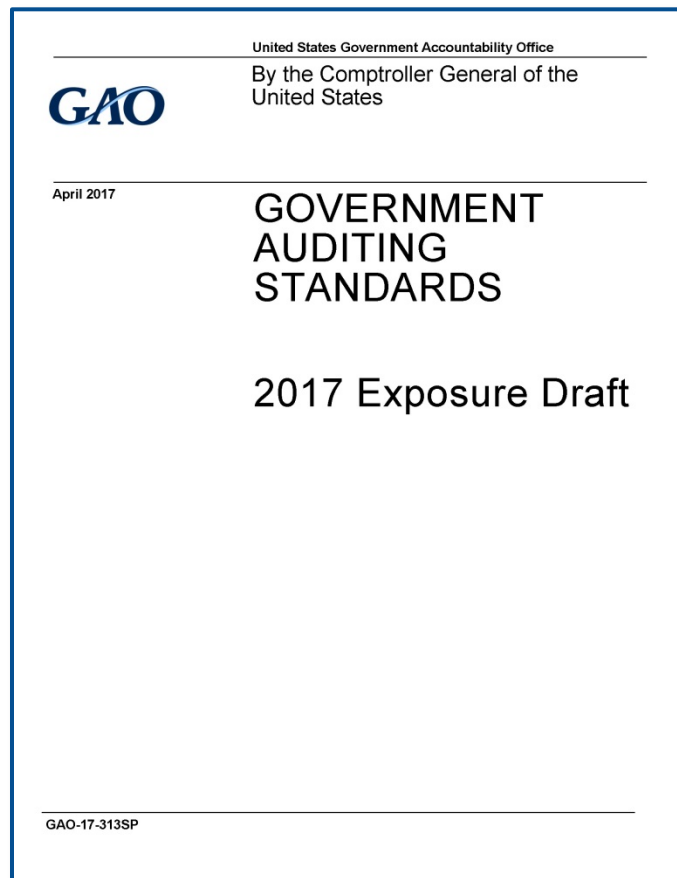


U.S. GOVERNMENT ACCOUNTABILITY OFFICE

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## Session Objective

Provide an update on proposed revisions in the 2017 Yellow Book Exposure Draft



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## **GAGAS Revision Process**

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- 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

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- 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)

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

## **New Format and Organization of GAGAS**

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- Chapters are presented in a revised format that differentiates requirements from application guidance
- Chapters are reorganized and realigned
- Supplemental guidance from the appendix of the 2011 revision is either removed or incorporated into individual chapters

# New Format and Organization of GAGAS

## Chapter 5: Quality Control and Peer Review

**5.01** This chapter establishes the GAGAS requirements and guidance for quality control and assurance, and for administering, planning, performing, and reporting on peer reviews of audit organizations that conduct engagements in accordance with GAGAS. The requirements of this chapter are intended to be followed in conjunction with those of all other applicable GAGAS requirements.

### Quality Control and Assurance

#### *Requirement: Quality Control and Assurance*

**5.02** An audit organization conducting engagements in accordance with GAGAS must establish and maintain a system of quality control that is designed to provide the audit organization with reasonable assurance that the organization and its personnel comply with applicable professional standards and legal and regulatory requirements, and that the reports issued by the audit organization are appropriate in the circumstances.

#### *Application Guidance: Quality Control and Assurance*

**5.03** An audit organization's system of quality control encompasses the audit organization's leadership, emphasis on performing high-quality work, and policies and procedures designed to provide reasonable assurance of complying with applicable professional standards and legal and regulatory requirements. The nature, extent, and formality of an audit organization's quality control system will vary based on the audit organization's circumstances, such as size, number of offices and geographic dispersion, knowledge and experience of its personnel, nature and complexity of its audit work, and cost-benefit considerations.

### System of Quality Control

#### *Requirement: System of Quality Control*

**5.04** An audit organization should document its quality control policies and procedures and communicate those policies and procedures to its personnel. The audit organization should document compliance with its quality control policies and procedures and maintain such documentation for a period of time sufficient to enable those performing monitoring procedures and peer reviews to evaluate the extent of the audit organization's compliance with its quality control policies and procedures.

#### *Requirements: Leadership Responsibilities for Quality within the Audit Organization*

**5.05** Audit organizations should establish policies and procedures on leadership responsibilities for quality within the audit organization that include the designation of responsibility for quality of engagements conducted in accordance with GAGAS and communication of policies and procedures relating to quality.

**5.06** Audit organizations should establish policies and procedures designed to provide reasonable assurance that those assigned operational responsibility for the audit organization's system of quality control have sufficient and appropriate experience and ability, and the necessary authority, to assume that responsibility.

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## Independence Threats related to Preparing Financial Statements

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- Any services performed by auditors related to financial statements, other than those defined as impairments, create significant threats to auditors' independence
  - Presumes that financial statement preparation is always a significant threat
  
- Auditors should:
  - Document the threats and safeguards applied to eliminate and reduce threats to an acceptable level

OR

- Decline to perform the service



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## GAGAS Qualification CPE Requirement

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### GAGAS Qualification Requirement = 4 hours CPE in GAGAS Topics

- Supervisors and partners or directors: requirement should be met before completing work on their first GAGAS engagement
- Entry-level staff: requirement should be met by the end of their first full 2-year CPE period
- After initial GAGAS qualification requirement is met, auditors should complete at least 4 hours of CPE in GAGAS topics each time the Comptroller General issues a revision of GAGAS

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# GAGAS Qualification CPE Requirement (continued)

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## GAGAS topics include:

- Standards for ethics, independence, professional judgment, competence and CPE, quality control, and peer review as established in GAGAS
- The types of GAGAS engagements
- The relationship between GAGAS and other standards
- Stating compliance with GAGAS in the auditor's report
- Additive GAGAS requirements for financial audits and examination engagements
- Additive GAGAS requirements for review and agreed-upon procedures engagements
- GAGAS fieldwork standards for performance audits
- GAGAS reporting standards for performance audits
- Internal control as addressed in GAGAS

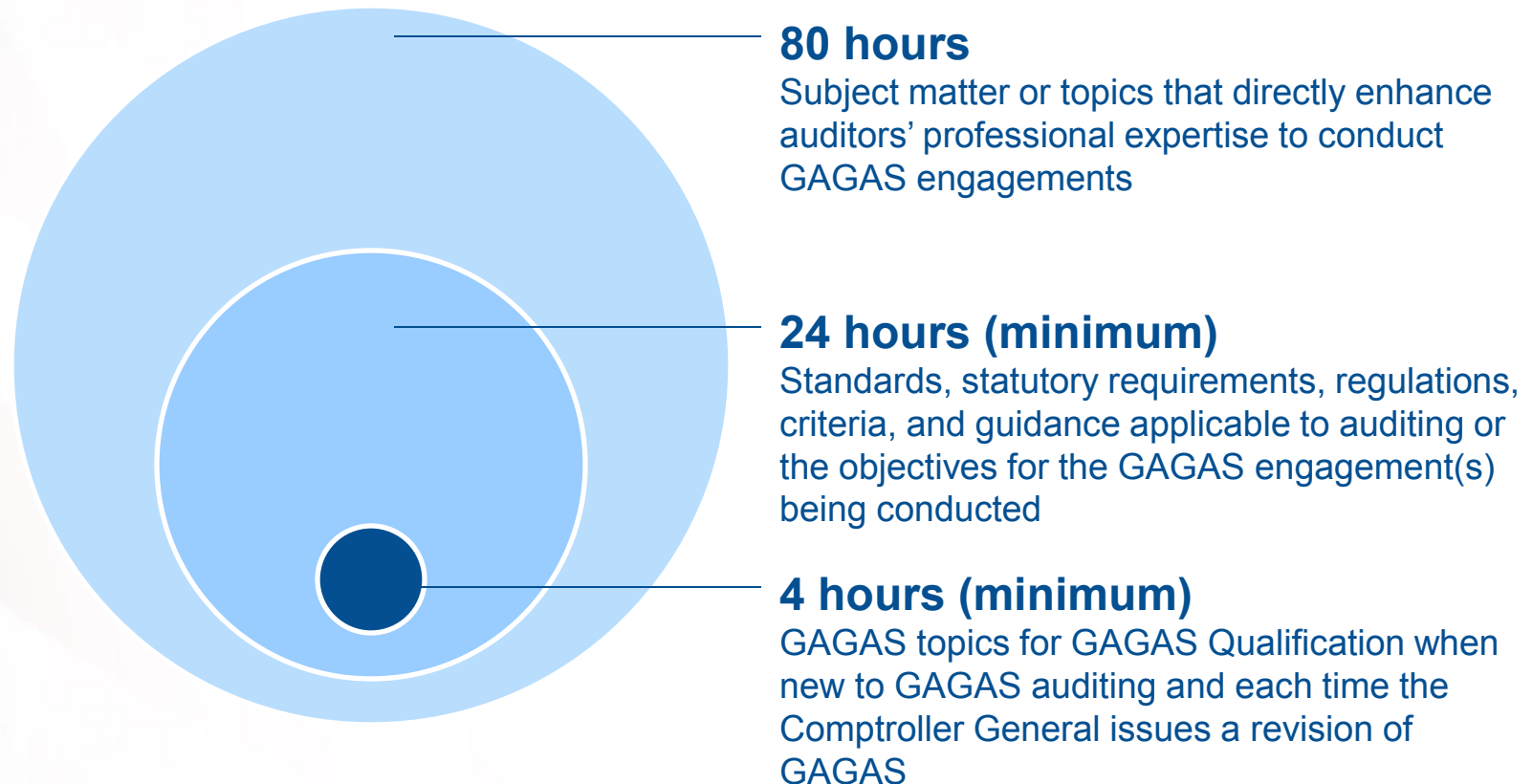
## Guidance for CPE Requirements

<u>CPE hours</u>	<u>Subject matter categories of CPE</u>
<b>24 hours</b>	Standards, statutory requirements, regulations, criteria, and guidance <b>applicable to auditing or the objectives for the GAGAS engagement(s)</b> being conducted ( <u>includes the 4 hours of GAGAS topics for GAGAS Qualification when applicable</u> )
<b>56 hours</b>	Subject matter or topics that <b>directly enhance auditors' professional expertise to conduct GAGAS engagements</b>

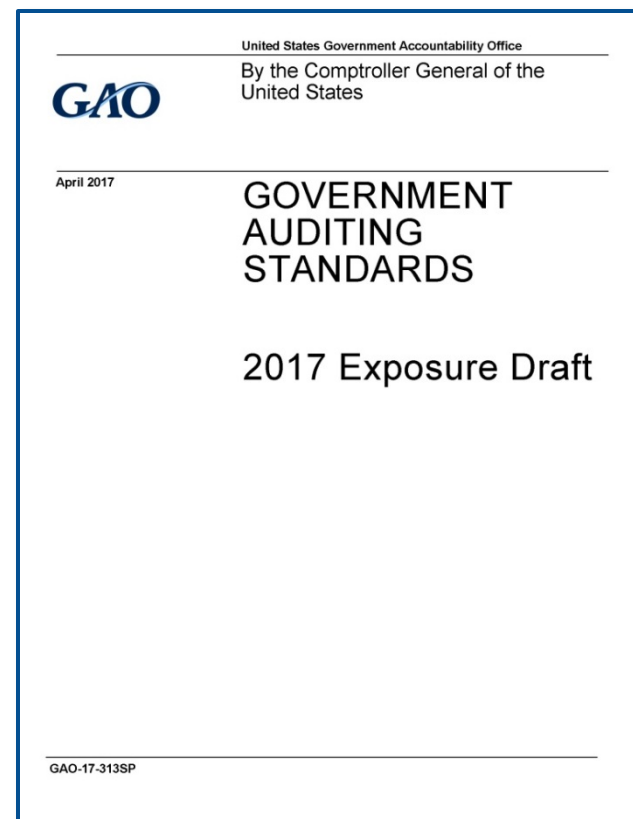
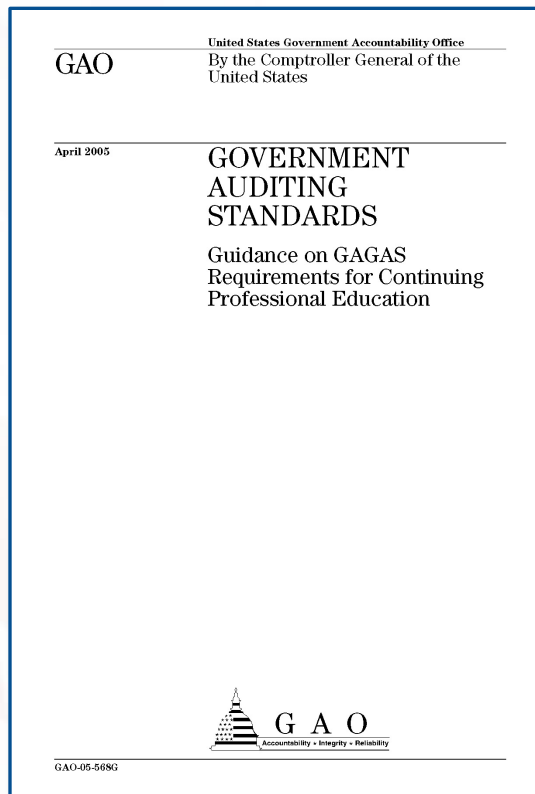
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## Guidance for CPE Requirements (continued)

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# Guidance for CPE Requirements (continued)



## Peer Review Requirements

Peer review section differentiates requirements for those audit organizations affiliated with a recognized organization



## Peer Review Requirements (continued)

Audit organizations affiliated with a recognized organization

- Comply with the respective organization's peer review requirements
- Additional GAGAS peer review requirements in areas such as:
  - selection of GAGAS engagements,
  - peer review report ratings, and
  - availability of peer review report to the public

Audit organizations **NOT** affiliated with a recognized organization

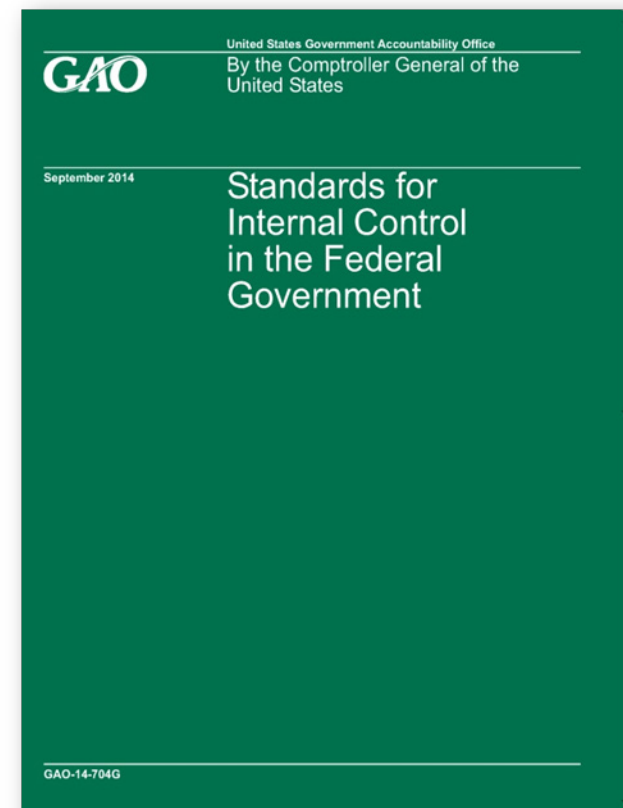
- Comply with GAGAS peer review requirements in areas such as:
- Peer review scope
  - Peer review intervals
  - Written agreement for peer review
  - Peer review team
  - Follow-up on prior peer review
  - Assessment of peer review risk
  - Report content
  - Peer review report ratings
  - Audit organization's response to the peer review report
  - Availability of the peer review report to the public

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## Internal Control: Financial Audits and Examination Engagements

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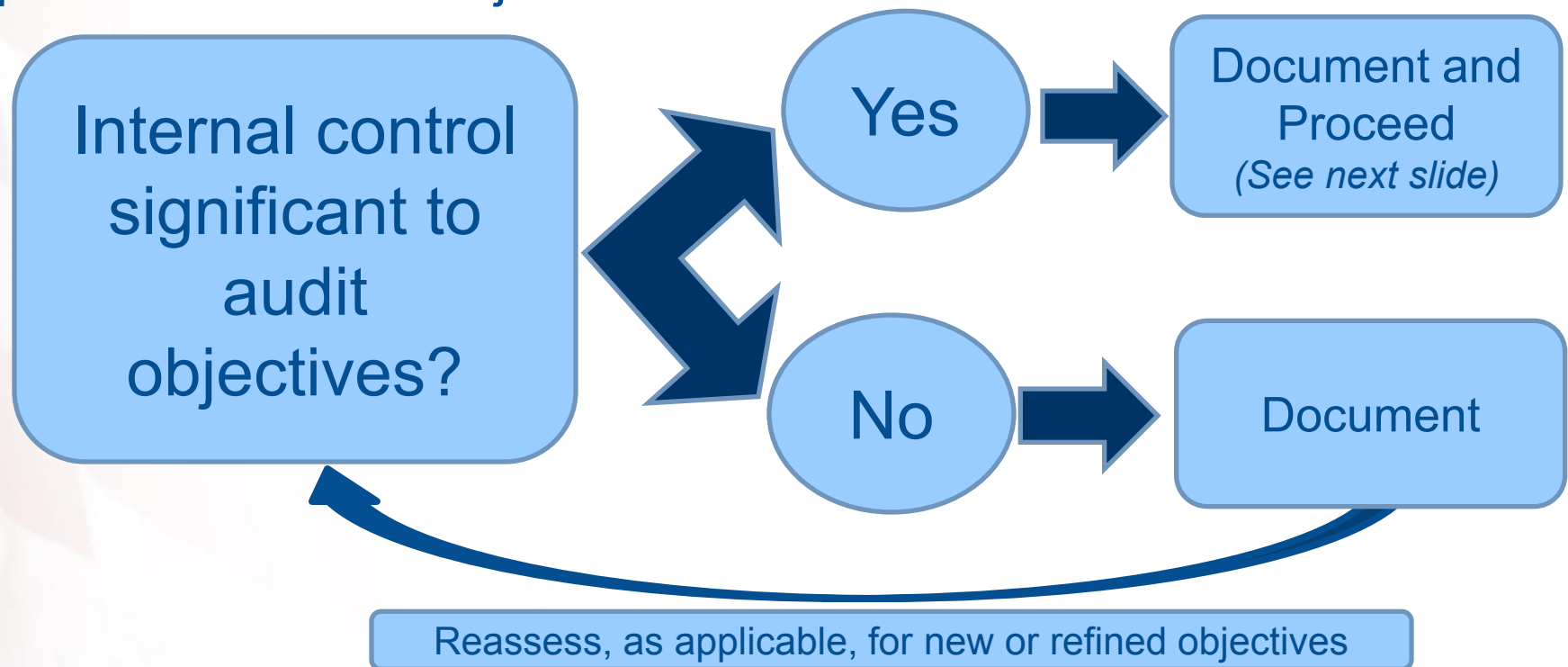
Considering a comprehensive internal control framework such as *Standards for Internal Control in the Federal Government* or *Internal Control – Integrated Framework* can help auditors identify the **cause of findings** and develop recommendations





## Internal Control: Performance Audits

Auditors should document the significance of internal control to performance audit objectives



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## Internal Control: Performance Audits (continued)

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**Internal control significant to audit objectives =**

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Yes

- Obtain and document an understanding of internal control that is significant to the audit objectives
- Assess and document internal control to the extent that it is significant to the audit objectives
- Evaluate and document the significance of identified internal control deficiencies to the audit objectives
- 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

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## New Requirements for Addressing Waste

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- Waste is the act of using or expending resources carelessly, extravagantly, or to no purpose
- Waste involves the taxpayers not receiving reasonable value for money in connection with any government-funded activities because of an inappropriate act or omission by parties with control over or access to government resources
- Waste can include activities that do not include fraud and abuse and does not necessarily involve a violation of law
- Waste relates primarily to mismanagement, inappropriate actions, and inadequate oversight

## New Requirements for Addressing Waste (continued)

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### Auditor responsibilities related to waste

- Auditor responsibilities are intended to be consistent with responsibilities related to abuse
- Auditors are not required to perform procedures to detect abuse or waste

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## Standards for Reviews of Financial Statements

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- Statement on Standards for Accounting and Review Services (SSARS) No. 21, Section 90 (Review of Financial Statements) is incorporated for auditors conducting reviews of financial statements in accordance with GAGAS
- GAGAS currently only incorporates reviews performed under the Statements on Standards for Attestation Engagements (SSAE)
- Reviews conducted in accordance with SSAE include reviews of interim financial information in connection with audited financial statements
- Reviews conducted in accordance with SSARS are more general in nature and not in connection with audited financial statements

# Management Assertions

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Guidance is revised to further explain that management assertions are **not required** when conducting a GAGAS performance audit

# Where to Find the Yellow Book

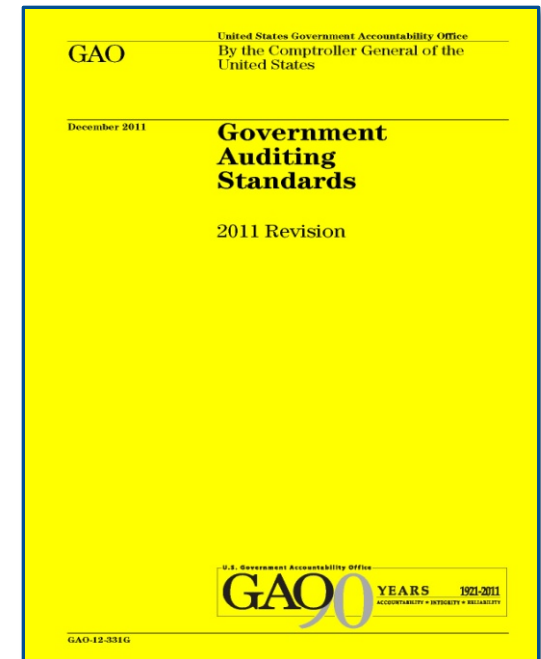
- The Yellow Book is available on GAO's website at:

[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**

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**Questions?**