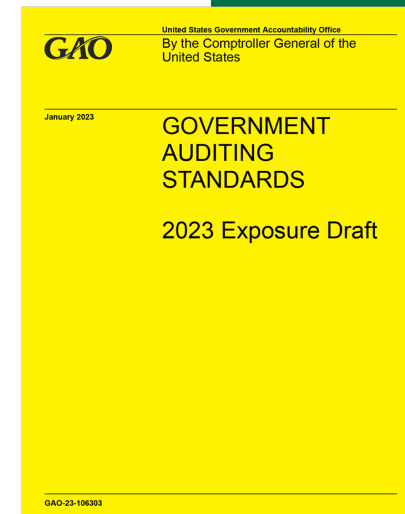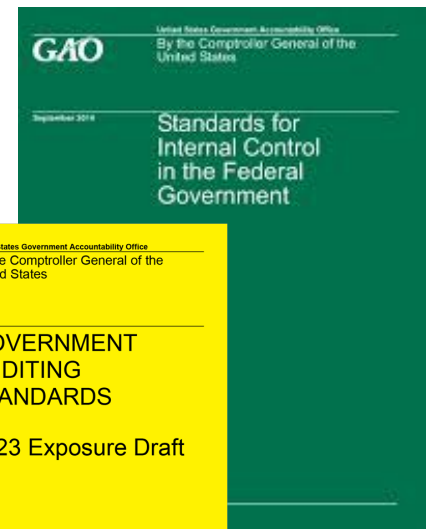# Yellow and Green Book Planned Revisions

National Intergovernmental Audit Forum

May 17, 2023

DISCLAIMER

The views expressed during this presentation are solely those of the presenter and do not necessarily reflect GAO's official position.

Session Objectives

- Provide an overview on proposed revisions in the 2023 Yellow Book Exposure Draft

- Highlight aspects of the Green Book that we are considering for revision

Overview

2023 YELLOW BOOK EXPOSURE DRAFT

2023 Yellow Book Exposure Draft

- GAO issued a proposed update to Chapter 5, *Quality Control and Peer Review*, and additional application guidance for Chapter 6, *Standards for Financial Audits*

- The comment period closed April 28, 2023

Why Update Quality Standards?

Global concern about audit quality, including:

- Lack of consistency in engagement performance

- Poor audit quality for infrequent issuers of audit and attest reports

- Reliance on generic quality control resources

- Challenges experienced by small audit organizations

- Need to upgrade audit organization governance and leadership responsibilities for quality

Objective of a System of Quality Management

5.02 The objective of a system of quality management for engagements performed in accordance with GAGAS is to provide the audit organization with reasonable assurance that the audit organization and its personnel

a. fulfill their responsibilities in accordance with professional standards and applicable laws and regulations and

b. perform and report on engagements in accordance with such standards and requirements.

Flexibility for Audit Organizations Subject to Other Quality Management Standards

- If an audit organization is subject to AICPA or IAASB quality management standards, they follow those requirements and specific additional Yellow Book requirements (5.07)

Emphasizes Leadership Responsibilities

5.13 The audit organization should assign

a. responsibility and accountability for the system of quality management to a senior-level official within the audit organization and

b. operational responsibility for the system of quality management or specific aspects of the system of quality management to a specific individual or individuals.

Two New Components

Extant GAGAS

- Leadership Responsibilities
- Independence, Legal, and Ethical Requirements
- Initiation, Acceptance, and Continuance of Engagements
- Engagement Performance
- Human Resources
- Monitoring of Quality
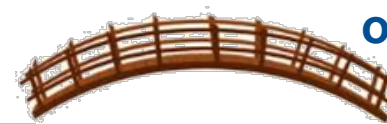
Proposed GAGAS

- Governance and Leadership
- Independence, Legal, and Ethical Requirements
- Acceptance, Initiation, and Continuance of Engagements
- Engagement Performance
- Resources
- Monitoring and Remediation Process
- Information and Communication (new)
- Quality Management Risk Assessment Process (new)

Quality Management Risk Assessment Process

5.19 The audit organization should design and implement a risk assessment process that establishes quality objectives, identifies and assesses quality risks, and designs and implements responses to address the quality risks.

5.23 The audit organization should identify, analyze, and respond to changes in the nature and circumstances of the audit organization or its engagements that could impact the quality objectives, quality risks, or responses to address quality risks.
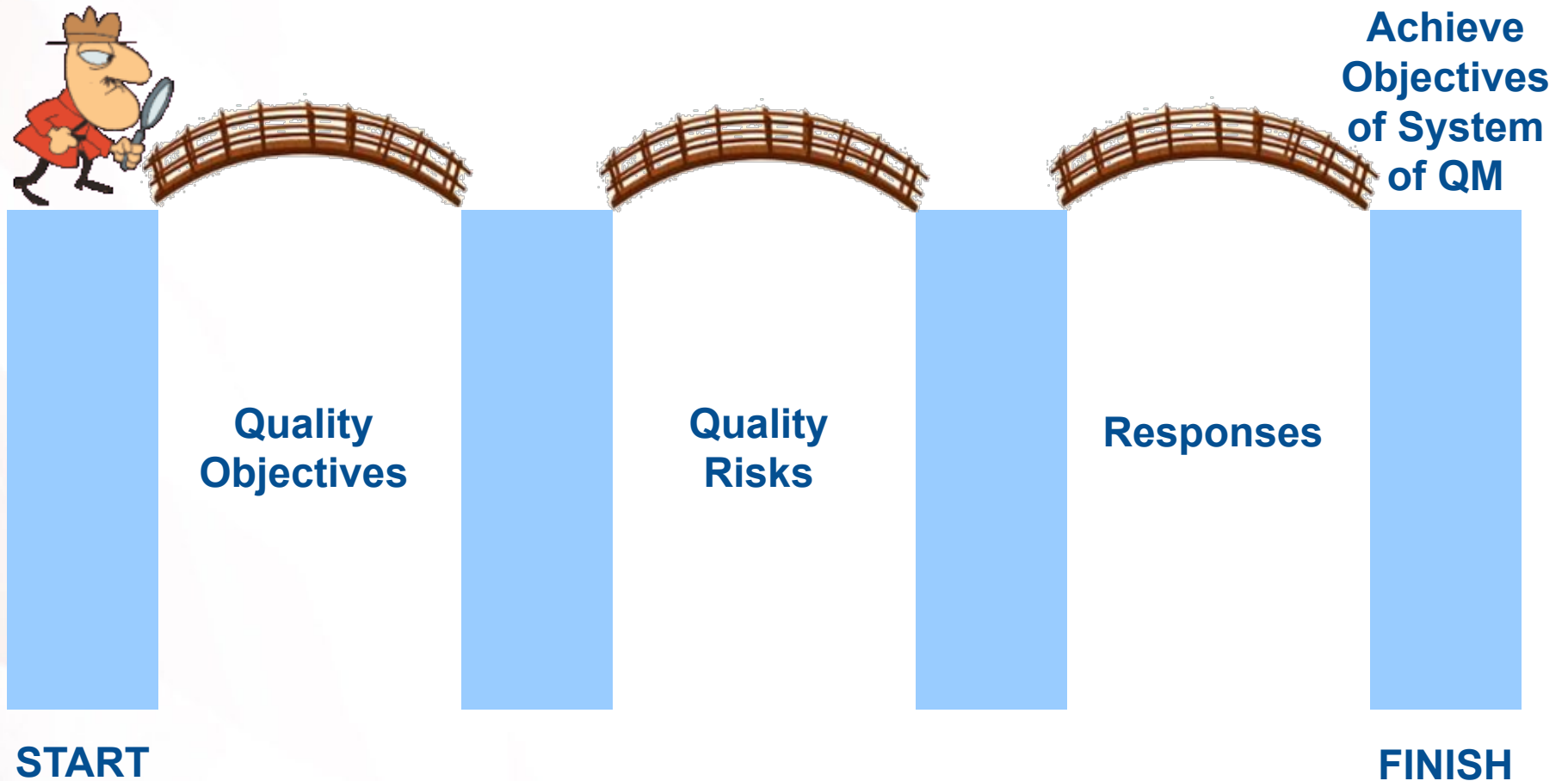
Extant Quality Control Process

Achieve Objective of System of QC

POLICIES & PROCEDURES

START

FINISH

Quality Management Risk Assessment Process

Achieve Objectives of System of QM

Quality Objectives

Quality Risks

Responses

START

FINISH

Components with Specified Quality Objectives

- Governance and Leadership

- Independence, Legal, and Ethical Requirements

- Acceptance, Initiation, and Continuance of Engagements

- Engagement Performance

- Resources

- Information and Communication

Responses

- Responses are primarily identified by audit organizations as part of the risk assessment process

- There are limited responses required by the Yellow Book. These pertain to:
  - Independence, legal, and ethical requirements
  - Engagement performance

Engagement Quality Reviews
An Optional Response

- Engagement Quality Reviews (EQRs): not solely for financial audits!

- Yellow Book does not require audit organizations to use EQR as a response to address quality risk(s). However, an audit organization does have to determine if they are an appropriate response (5.53e and 5.53f).

- If EQR is an appropriate response to quality risk(s), there is a separate section in Chapter 5 with requirements and guidance for performing one (5.137-5.150)

Enhanced Emphasis on Remediation

- The proposed revision requires an audit organization to identify, evaluate, and respond to quality management deficiencies to address the underlying causes of those deficiencies. (5.105, 5.112, 5.116)

- An audit organization should further evaluate remedial actions to determine if they are effective. (5.117-5.118)

Evaluating the System of Quality Management

5.126 The senior-level official assigned responsibility and accountability for the audit organization's system of quality management should evaluate the system of quality management at least annually.

Scalability

- Since a system of quality management is tailored to each audit organization, it is designed to be inherently scalable

- Specific scalability considerations are in a few application guidance paragraphs (5.11-5.12, 5.83)

Key Audit Matters

- Revised AICPA reporting standards for financial audits, incorporated by reference into the Yellow Book, introduced key audit matters (KAMs)

- Proposed revision adds application guidance clarify when KAMs might apply for Yellow Book financial audits (6.39)

Proposed Effective Date

- The proposed effective date would require quality management systems to be designed and implemented within 2 years from issuance of the final revision

- The first evaluation of the system of quality management would be required within 1 additional year (3 years from the issuance of the final revision)

- Early adoption of the proposed revision would be permitted

Next Steps

The Yellow Book Revision Process

January 30 – April 28, 2023: Exposure Draft Period

Summer 2023: Staff Analysis and Revision

Fall 2023: Yellow Book Advisory Council Meeting

TBD: Final Yellow Book Issuance

Overview

GREEN BOOK REVISION

Why is the Green Book Being Updated?

- Since the *Standards for Internal Control in the Federal Government* (known as the Green Book) was last revised in 2014, risks related to improper payments, fraud, the implementation of emergency assistance programs, and information systems have increased.

- Planned revisions will provide additional focus on government-specific internal controls.

Improper Payments

Fraud

Emergency Assistance Programs

Information Systems

Specific Risk Factors

Why Improper Payments?

- Improper payments—payments that should not have been made or were made in the incorrect amount—have consistently been a government-wide issue despite efforts to identify their root causes and reduce them.

- Federal agencies made an estimated $281 billion in improper payments in FY 2021—up from about $206 billion for FY 2020.

Improper Payments

GAO

Why Fraud?

- When fraud occurs within or against federal agencies and programs, it wastes taxpayer dollars, harms the overall integrity of federal programs and services, can erode public trust, and may result in other negative impacts.

- Prior work by GAO has found that some agencies have had challenges effectively assessing and managing their fraud risks, and that federal managers may not fully understand how fraud affects their programs.



Fraud

Why Emergency Assistance Programs?

- Emergency assistance in response to public health crises, natural disasters, and other catastrophic events, such as cyberattacks or terrorism, can present significant challenges to entities that must distribute emergency relief funding quickly and efficiently.

- Emergency assistance programs often have an increased risk for fraud and improper payments.

- Prior work by GAO has found that many agencies did not develop effective internal controls to manage and oversee the distribution of emergency funds.
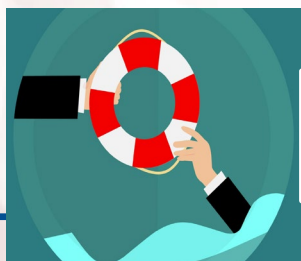
Emergency Assistance Programs

Why Information Systems?

- Risks to information systems are increasing—including insider threats from witting or unwitting employees, escalating and emerging threats from around the globe, and the emergence of new and more destructive attacks.

- Rapid developments in new technologies, such as artificial intelligence, can also introduce security issues.

- Many information systems contain vast amounts of personally identifiable information (PII), and entities must protect the confidentiality, integrity, and availability of this information—and effectively respond to data breaches and security incidents.

Information Systems
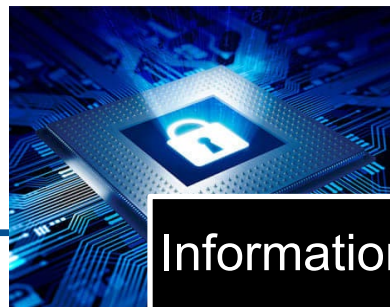
Proposed Revisions

- Comprehensive revision of Green Book, although core components and principles likely to remain.

- Continued harmonization with COSO Framework.

- Additional criteria for addressing government specific risk factors.

- Emphasis on preventive controls.

- Emphasis that management involvement at both the operations and programmatic level is necessary when implementing an effective internal control system.

Proposed Revisions – Focus Areas

- Information systems (greater harmonization of principles with COSO)

- Fraud (clarification of definitions and emphasis on external risk factors)

- Risks and internal controls related to:
  - New and emergency assistance programs
  - Programs susceptible to improper payments
  - Information systems

Proposed Revisions

Green Book Structure

- Overview (updated)

- Components, Principles, and Attributes (updated)

- Appendices (new)
  - Guidance on Specific Risk Factors
  - Case Study
  - Additional Resources

Proposed Revisions - Appendix

Emphasis on Decision Points (Control Environment, Risk Assessment, and Information & Communication)

- Assigning responsibility and management commitment

- Evaluating risks for new programs

- Assessing IT security management risks

- Evaluating resources and information requirements

Proposed Revisions - Appendix

Emphasis on Decision Points (Control Activities and Monitoring)

- Understanding eligibility

- Assessing the disbursement process

- Prioritizing preventive controls

- Expediting detective controls

Preventive Controls

- Emphasis on preventive controls in attributes and in appendix.

- Include examples of preventive controls:
  - Identity-verification
  - Data matching and analysis
  - Data trend and anomaly analysis
  - Authorizations
  - Approvals
  - Sufficient training for implementing internal controls for new programs

Comptroller General's Advisory Council on Standards for Internal Control in the Federal Government

- The Comptroller General established the Council to provide input and recommendations on revisions to the Green Book.

- The Council consists of highly qualified individuals with complementary skills that provide a strong knowledge base in internal controls.
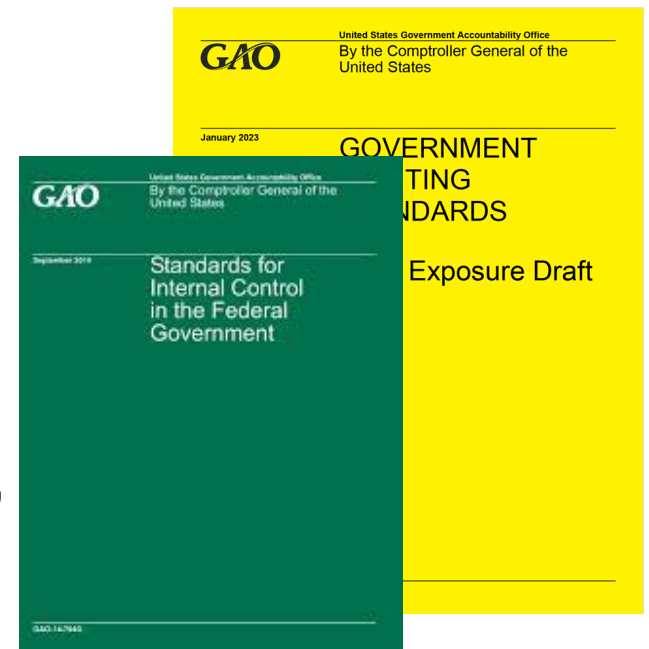
Next Steps

- Advisory Council will meet on June 14, 2023 to discuss proposed revisions.

- An exposure draft will be issued in the fall for public comment.

- Planned issuance of revised Green Book Spring 2024

Green Book Advisory Council Meeting

- More information on the June 14, 2023 meeting will be available in the Federal Register.

- Members of the public will have an opportunity to address the Council with brief (5-minute) presentations on matters directly related to the proposed revisions.

Where to Find the Yellow Book and Green Book

- The Yellow Book Exposure Draft is available on GAO's website at:
  www.gao.gov/yellowbook

- The Green Book can be found at:
  www.gao.gov/greenbook

- For technical assistance, contact us at:
  yellowbook@gao.gov, greenbook@gao.gov,
  or call (202) 512-9535

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Questions?

Thank you!