



# Follow the Yellow Book Road

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# The paths we'll take...

- ▶ Chapter by chapter
- ▶ Data to improve GAGAS audits
- ▶ Resources

# Overview of Standard Setting Bodies for Government

	Accounting Standards	Auditing Standards
Private Companies	FASB	AICPA GAAS
Public Registrants	FASB	PCAOB
Government	GASB ~ Government Accounting Standards Board	<ol style="list-style-type: none"> <li>1. AICPA GAAS</li> <li>2. GAGAS ~ Generally Accepted Government Auditing Standards (Yellow Book)</li> <li>3. OMB Circular A-133 ~ Single Audit Act (to be replaced by Uniform Grant Guidance)</li> </ol>

# The Yellow Book

## ▶ The stats

- Government Auditing Standards issued by the Government Accountability Office published by the Comptroller General of the United States
- Names – GAGAS, GAS, or the Yellow Book (YB) all are one and the same
- Latest and greatest version – Government Auditing Standards, 2011 Revision
  - Effective for periods ending on or after 12/15/12
  - Online at <http://www.gao.gov/yellowbook/overview>
- 7 chapters, 3 appendices, 234 pages total

# Chapter 1

## »» Government Auditing: Foundation and Ethical Principles

# Chapter 1 Purpose and Applicability

- ▶ **WHAT** is the Yellow Book?
  - GAO: Provides a framework for conducting high quality audits with competence, integrity, objectivity, and independence.
- ▶ **WHEN** does Yellow Book apply?
  - GAO: For use by auditors of government entities, entities that receive government awards, and other audit organizations performing Yellow Book audits.
  - Key is for AUDITOR to understand PRIOR TO ENGAGEMENT if Yellow Book is applicable
  - Key for AUDITEE to comply with applicable laws, regulations and contracts and to know WHEN TO ASK for a Yellow Book audit.

# Chapter 1 Purpose and Applicability

- ▶ **WHO** is subject to the Yellow Book?
  - Audits under OMB Circular A-133 or the Uniform Administrative Requirements, Audit Requirements and Cost Principles for Federal Financial Assistance (2 C.F.R. 200) for states, local governments and non-profits
  - For-profits with certain government funding
  - Management choice

# Chapter 1 Definitions

- ▶ Audit = financial audits, attestation and performance audits
- ▶ Audit organization = government audit organizations as well as public accounting firms that perform audit and attestation engagements using GAGAS
- ▶ Auditor = individuals performing work in accordance with GAGAS regardless of job title
  - Could include auditors, analysts, practitioner, evaluator, inspector, etc.



# Chapter 1 Ethical Principles

- ▶ Principles that guide the work of GAGAS auditors:
  - The public interest
  - Integrity
  - Objectivity
  - Proper use of government information, resources, and positions; and,
  - Professional behavior

# Chapter 2

- » Standards for Use and Application of GAGAS

# Chapter 2 Types of GAGAS Audits and Attestation Engagements

Type of audits that may be performed in accordance with GAGAS	Applicable GAGAS requirements
Financial audits	Chapters 1 through 4 apply
Attestation engagements	Chapters 1–3 and 5 apply
Performance audits	Chapters 1–3, 6 and 7 apply
Nonaudit services	NOT COVERED BY GAGAS
*Appendix I provides detailed supplemental guidance for implementation of GAGAS	

# Chapter 2 Stating Compliance with GAGAS in Auditors' Report

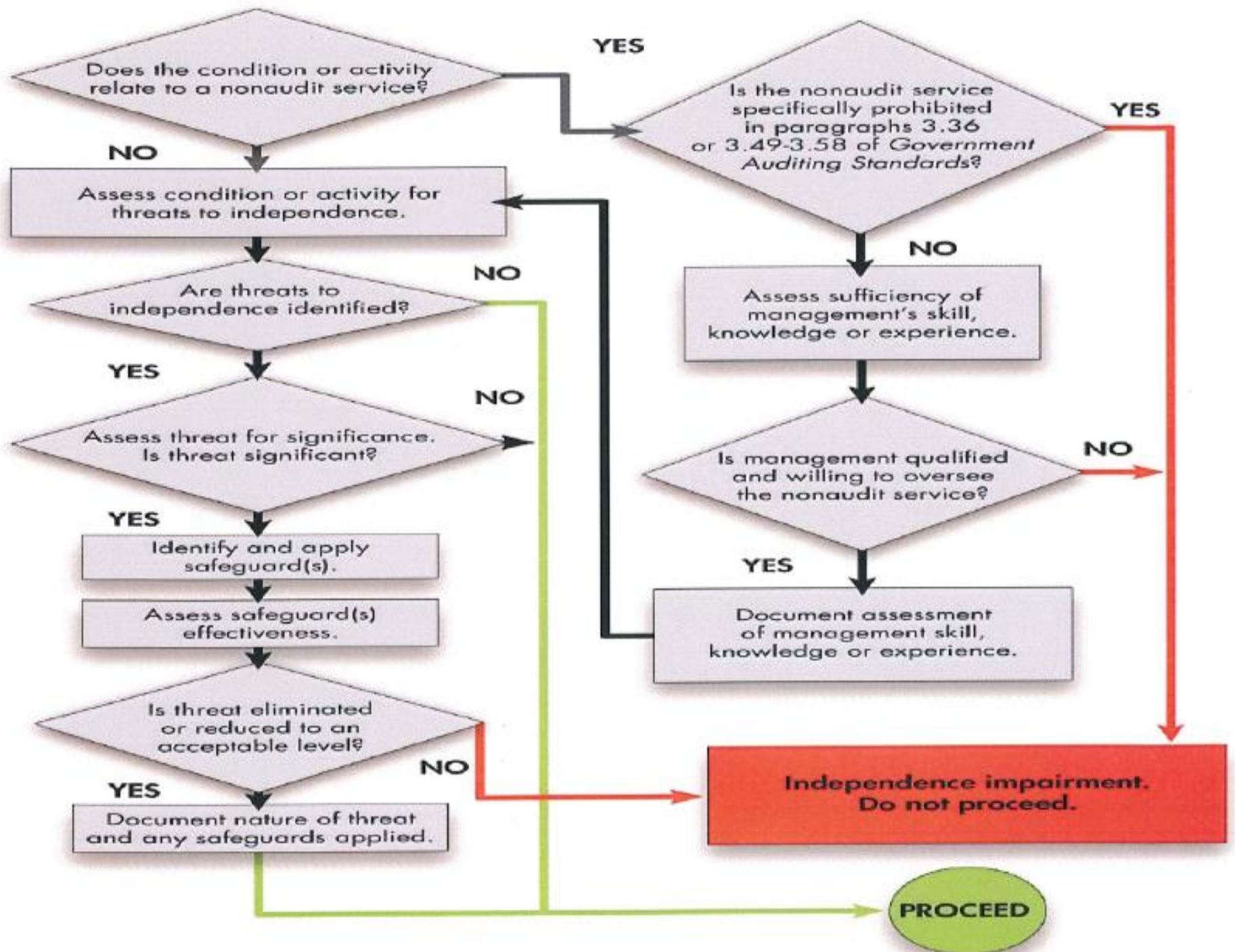
- ▶ Clarifies citing compliance with GAGAS in Audit Report and provides examples for when you should modify your compliance statement

# Chapter 3

## »» General Standards

# Chapter 3 Independence

- ▶ Defines independence of mind and in appearance
- ▶ Emphasizes the importance of considering individual threats to independence both individually and in the aggregate
- ▶ Conceptual Framework:
  - Allows auditor to assess unique circumstances
  - Adaptable
  - Consistent with AICPA and IFAC frameworks
  - Certain services still prohibited



# Independence Documentation Requirements

- ▶ Document in planning and reporting and in between as circumstances change
- ▶ Must document when safeguards have been applied
  - Beyond the threat level
  - Only once safeguards are applied
  - Document how safeguards sufficiently mitigate the threats
  - Generally consistent with AICPA Int. 101-3
- ▶ Documentation of assessment of SKE
  - AICPA Int. 101-3 requires that SKE be assessed but does not require documentation of that assessment.



# Steps to evaluate and document nonaudit services independence considerations

- ▶ Identify nonaudit services
- ▶ Determine if a prohibited service
- ▶ Management responsibilities (preconditions)
- ▶ Evaluate and document SKE
- ▶ Assess whether threats are significant
- ▶ Identify and apply safeguards

Process must be done **PRIOR** to performance of nonaudit services.

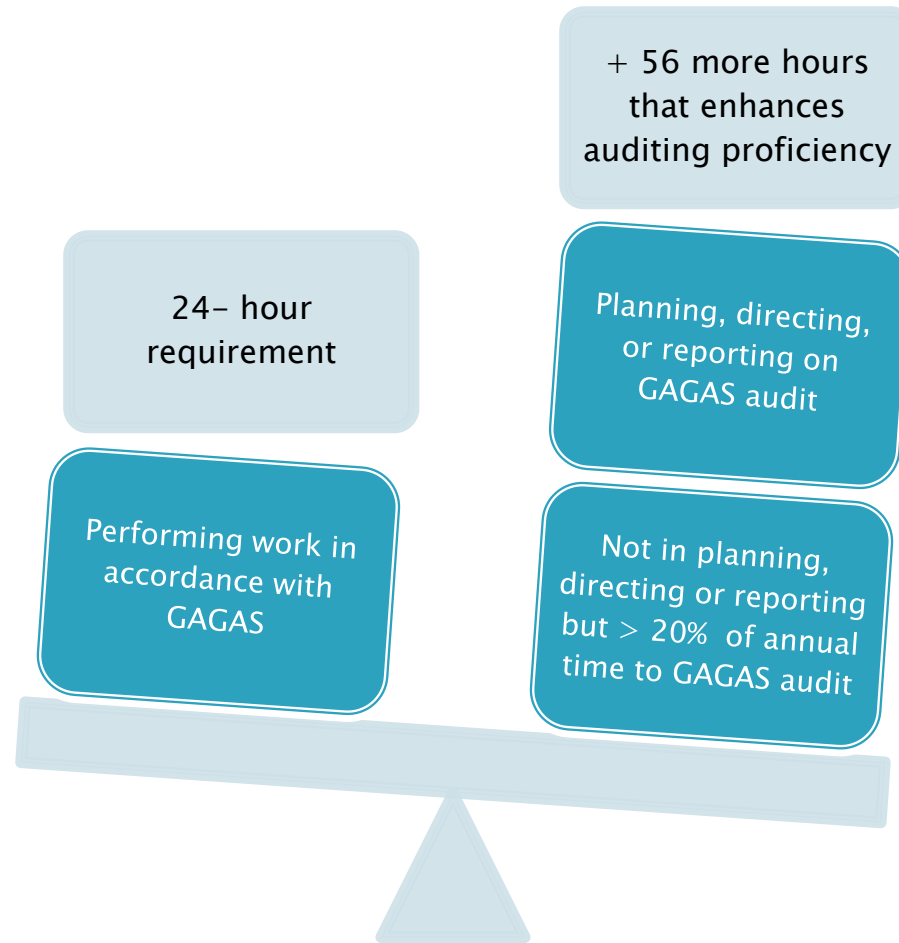
# Chapter 3 Professional Judgment

- ▶ Exercising reasonable care
- ▶ Professional skepticism
- ▶ We have different opinions on threats, risks, and responses to those and might reach different conclusions...
  - So DOCUMENT your professional judgment clearly in your workpapers

# Chapter 3 Competence

- ▶ Paragraphs 3.69–3.81
  - Staff assigned must collectively possess adequate professional competence
  - Competence is a combination of education and experience
- ▶ Who does CPE requirement apply to?
  - Audit professionals, including concurring partners
  - Internal specialists that are part of the engagement team
  - Internal auditors and subcontractors
  - **EXEMPT** – Administrative assistants, interns, external specialists, internal specialists that are consulting

# Chapter 3 $24 + 56 = 80$



# Chapter 3 Competence

80-hour total requirement ~ Minimum of 20 hours per year

## 24-hour requirement topics:

- the government environment
- Standards used in government auditing
- The specific or unique environment of the audited entity (e.g.. Nonprofit)

## Remainder of the 80-hour requirement

would include a broad variety of topics/courses covering the firm's or industry audit methodology

# Chapter 3 Quality Control and Assurance

- ▶ External peer review at least once every 3 years
  - Make it publicly available
  - Provide to contracting parties when requested
- ▶ Audit organizations should analyze and summarize, in writing, the results of monitoring procedures at least annually:
  - Include identification of any systemic issues needing improvement
  - Include recommendations for corrective action
  - Communicate deficiencies noted to appropriate personnel and make recommendations for remedial action

# Chapter 4

## »» Standards for Financial Audits

# Chapter 4 Standards for Financial Audits

- ▶ Up, up and away – additional items above and beyond AICPA
  - Auditor communications
    - Engagement letters, communications to those charged with governance in planning and reporting stages of audit
  - Previous audits and attestation engagements
    - Prior audit findings and steps taken to address those and impact on risk
  - Fraud, noncompliance with provisions of laws, regulations, contracts, and grant agreements, and abuse
  - Developing elements of a finding
  - Audit documentation



# Chapter 4 Standards for Financial Audits

- ▶ Document supervisory review
  - Before report release date
  - Supports the findings, conclusions and recommendations in report
  
- ▶ Reporting
  - Opinions on Basic Financial Statements
  - Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

# Chapter 4 Standards for Financial Audits

- ▶ Highlights considerations for applying certain AICPA standards in a GAGAS financial audit
  - Materiality
  - Auditors may find it appropriate to use a lower materiality level in a governmental environment
  - Early communication of control deficiencies in a GAGAS financial audit
  - For some matters, early communication is important because of significance and the urgency of corrective action
  - May communicate orally to management, and when appropriate those charged with governance, so timely remedial action can be taken to minimize risk of material misstatement

# Chapter 5

## »» Standards for Attestation Engagements

# Chapter 5 Standards for Attestation Engagements

- ▶ Focus on GAGAS requirements beyond AICPA
  - Auditor communications
  - Fraud, illegal acts, violations of provisions of contracts or grant agreements, or abuse that could have a material effect on the subject matter or an assertion about the subject matter
  - Developing elements of a finding; and
  - Working Paper documentation
- ▶ Focus on the 3 levels of attestation engagements:
  - Examinations
  - Reviews
  - Agreed-upon procedures

# Chapter 6

## »» Field Work Standards for Performance Audits

# Chapter 6 Field Work for Performance Audits

- ▶ Reasonable assurance
- ▶ Significance in a performance audit
- ▶ Audit risk
- ▶ Planning
- ▶ Supervision
- ▶ Obtaining Sufficient, Appropriate Evidence and Audit Documentation
  - If audit is terminated before it is completed, auditors should document results of the work completed to date of termination and why audit was terminated. How to communicate to those charged with governance and other officials is matter of professional judgment.

# Chapter 7

## »» Reporting Standards for Performance Audits

# Chapter 7 Performance Audits

## ▶ Form of the report

- Must issue audit report of each completed performance audit
- In writing or in some other retrievable form (electronic is fine)



# Chapter 7 Performance Audits

## ▶ Contents of the report

- Objectives, scope and methodology
- Audit results, including findings, conclusions and recommendations, as necessary
  - Specific discussion of reporting of internal control deficiencies and noncompliance – PROFESSIONAL JUDGEMENT IS REQUIRED
  - Fraud reporting is limited to occurrences that are SIGNIFICANT within context of the audit
- Statement about compliance with GAGAS
- Summary of views of responsible officials
- If applicable, nature of any confidential or sensitive information omitted

# Chapter 7 Performance Audits

## ▶ Report Issuance and Distribution

- Depends on relationship between auditors to the audited organization and the nature of the information
- Auditors should document any limitation on report distribution
- Possible distributions to:
  - Those charged with governance
  - Appropriate entity officials
  - Oversight bodies or organization requiring or arranging for the audits
  - General public

# Data to Improve Audits

- ▶ AICPA Peer Review teams have been tracking Matters for Further Consideration (MFC) since December 2012 and compiled list of trends:
  - Failure to update the audit report to conform to audit standards
  - Failure to properly document evaluation of management's SKE
- ▶ AICPA previously noted other common MFCs
  - Not meeting CPE requirements
  - Management representation letter not tailored to include GAGAS representations

# Resources

- ▶ 2011 Yellow Book
  - <http://www.gao.gov/yellowbook>
- ▶ GAO Guidance on CPE
  - <http://www.gao.gov/assets/80/76894.pdf>
- ▶ GAO technical hotline
  - [yellowbook@gao.gov](mailto:yellowbook@gao.gov)
- ▶ GAQC website contains AICPA Illustrative Auditor's Reports
  - <http://www.aicpa.org/InterestAreas/GovernmentalAuditQuality/Resources/IllustrativeAuditorsReports/Pages/default.aspx>
- ▶ Yellow Book Tools and Aids section of the GAQC website
  - <http://www.aicpa.org/interestareas/governmentalauditquality/resources/auditeeresourcecenter/pages/yellowbooktoolspracticeaidsandotherresourcesforauditees.aspx>
  - Includes archived member Web events

# Resources

- ▶ AICPA Audit Guide, Government Auditing Standards and Circular A-133 Audits
  - 2014 edition

# QUESTIONS?

## Contact Information



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