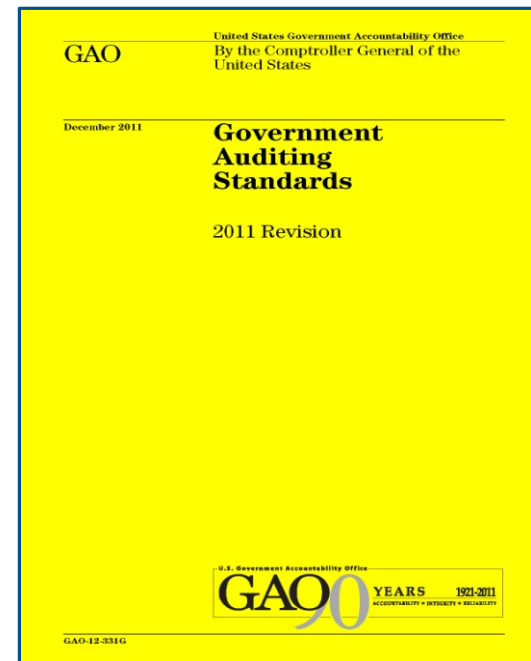




Update on the Developments in Government Auditing Standards

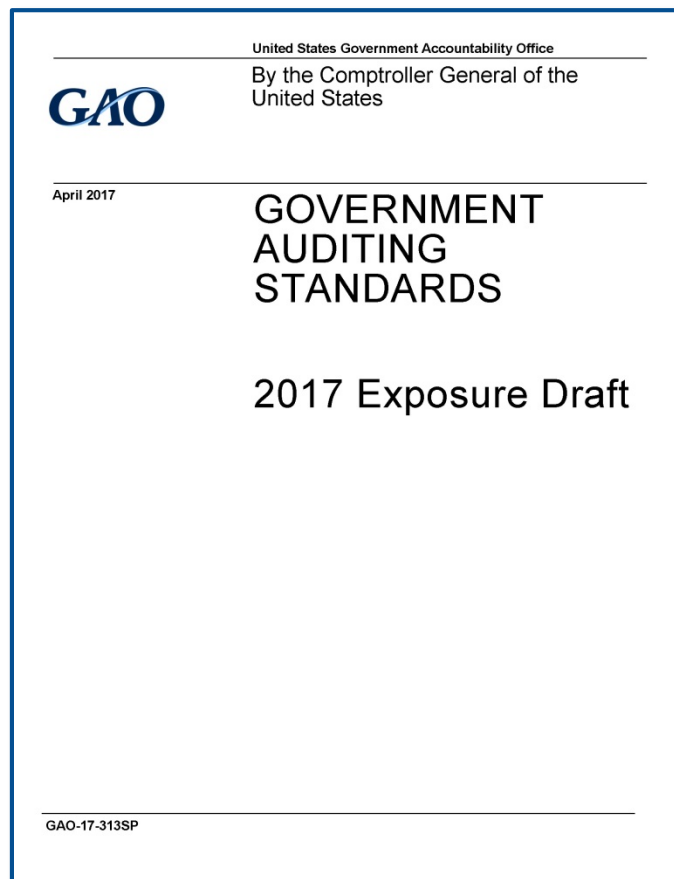
**Yellow Book Exposure Draft Update
Advisory Council Discussion
Spring 2018**



U.S. GOVERNMENT ACCOUNTABILITY OFFICE

Session Objective

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



GAGAS Revision Process

- Exposure draft was issued for public comment on April 5, 2017
- Public comments were due to GAO no later than July 6, 2017
- GAO received over 1,700 individual comments on the exposure draft. Comment letters can be viewed at www.gao.gov
- The Comptroller General's Advisory Council on Government Auditing Standards met in public session on April 10, 2018 to consider changes to the draft standards since exposure
- Projected final issuance in June 2018

Summary of Key Changes from 2011 Revision: 2017 Exposure Draft

- 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 from 2011 Revision: 2017 Exposure Draft (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

New Format and Organization of GAGAS: 2017 Exposure Draft

- 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: 2017 Exposure Draft

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.

New Format and Organization of GAGAS: Spring 2018 Advisory Council Discussion

- No significant changes in page layout
- Print hard-copy version in a larger size

Independence Threats related to Preparing Financial Statements: 2017 Exposure Draft

- 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



Independence Threats related to Preparing Financial Statements: Spring 2018 Advisory Council Discussion

- No significant change in this requirement

Additional Independence Updates: Spring 2018 Advisory Council Discussion

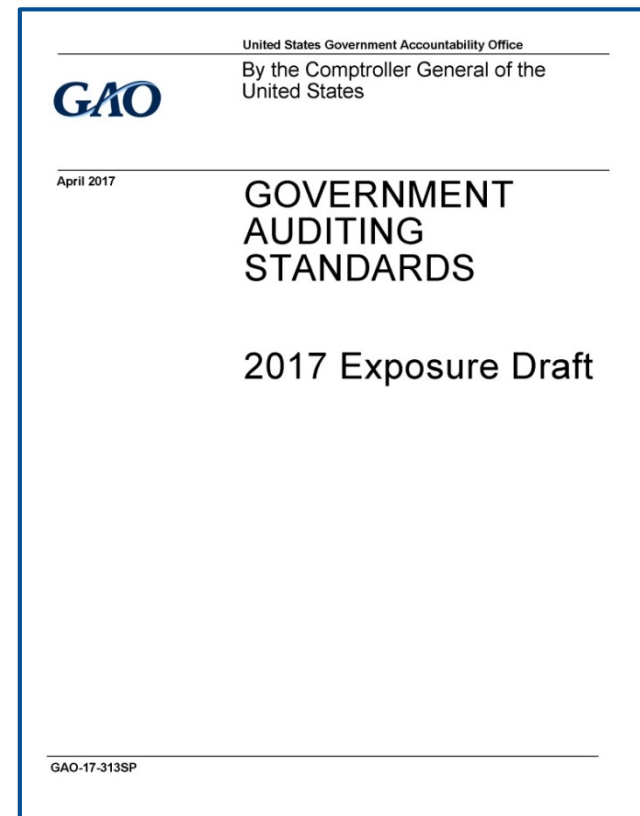
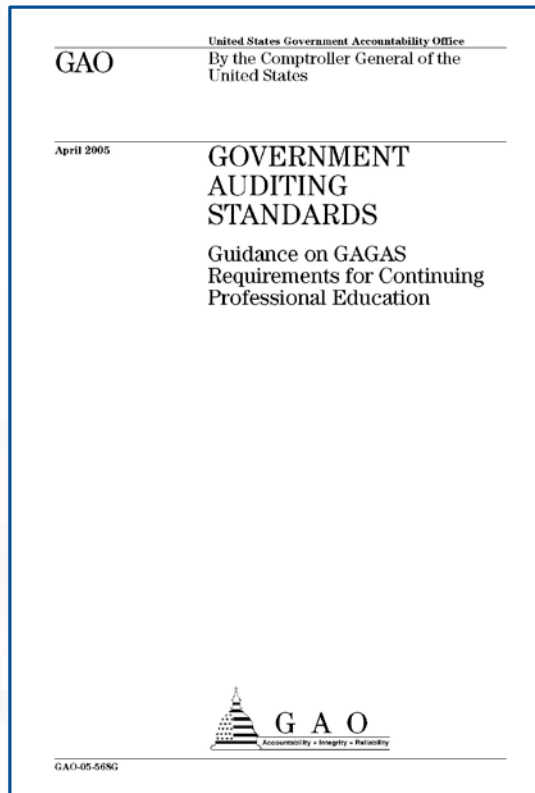
- Add new graphic as a supplement to the GAGAS Conceptual Framework for Independence graphic illustrating the process for assessing independence threats related to auditor preparation of accounting records and financial statements
- Update application guidance to clarify that certain services provided by government audit organizations would generally not create threats to independence

GAGAS Qualification CPE Requirement: 2017 Exposure Draft

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

Guidance for CPE Requirements: 2017 Exposure Draft



CPE Requirements and Guidance – Spring 2018 Advisory Council Discussion

- Eliminate the 4-hour GAGAS Qualification CPE requirement
- Add application guidance related to obtaining GAGAS specific CPE each time a new Yellow Book revision is issued
- Clarify guidance on CPE pertaining to specialists

Peer Review Requirements: 2017 Exposure Draft

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



Peer Review Requirements: 2017 Exposure Draft (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

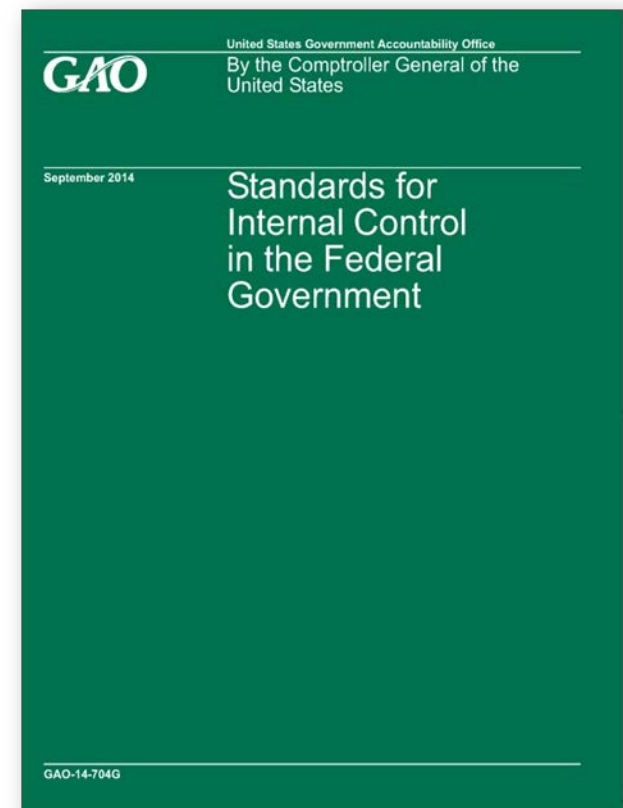
- Comply with GAGAS peer review requirements in areas such as:
- Peer review scope
 - Peer review intervals
 - Written agreement for peer review
 - Peer review team
 - Follow-up on prior peer review
 - Assessment of peer review risk
 - Report content
 - Peer review report ratings
 - Audit organization's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

Peer Review Requirements: Spring 2018 Advisory Council Discussion

- Consolidate certain requirements and guidance that apply to both affiliated and non-affiliated categories to eliminate duplication

Internal Control: Financial Audits and Examination Engagements: 2017 Exposure Draft

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



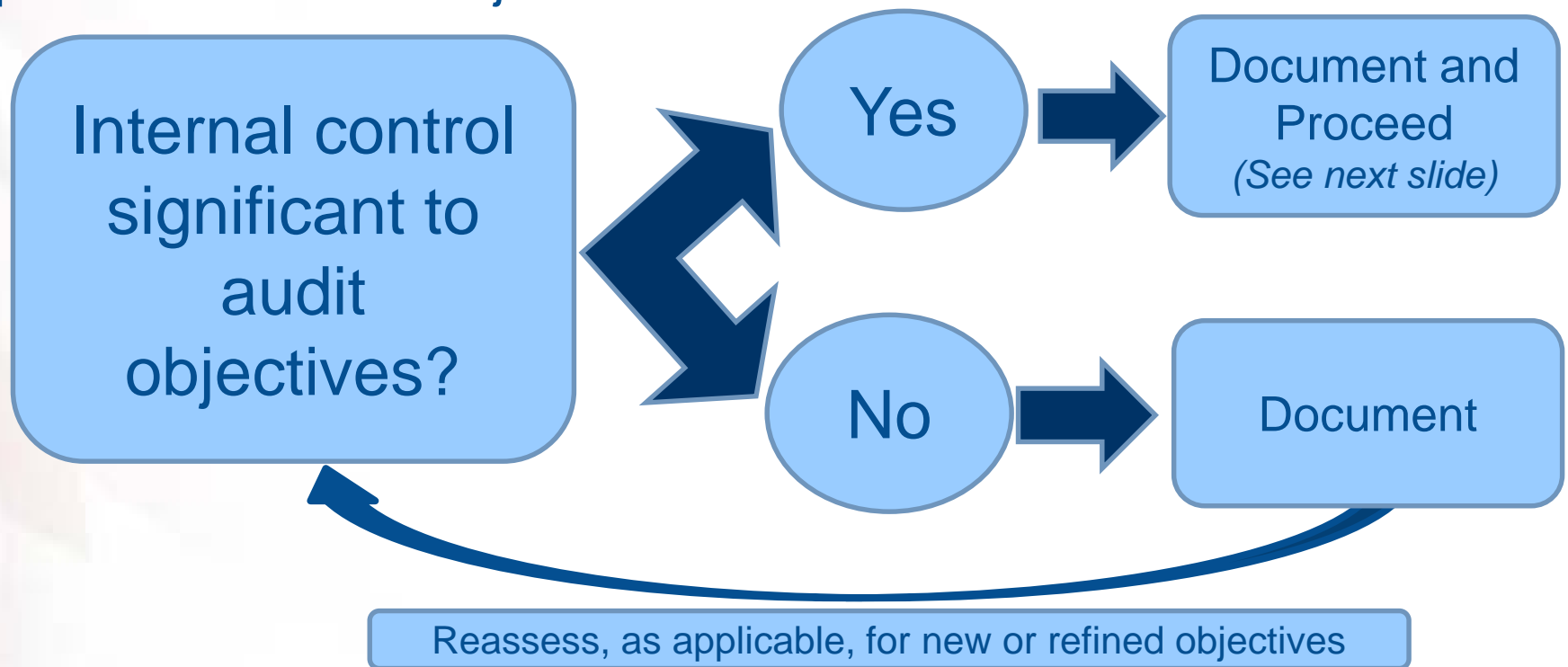


Internal Control: Financial Audits and Examination Engagements: Spring 2018 Advisory Council Discussion

- No significant changes in these requirements

Internal Control: Performance Audits: 2017 Exposure Draft

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



Internal Control: Performance Audits: 2017 Exposure Draft (continued)

Internal control significant to audit objectives =



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

Internal Control: Performance Audits: Spring 2018 Advisory Council Discussion

- Clarify reporting requirement in Chapter 9 on the scope of internal controls tested
- Add application guidance to further explain when an auditor might report on the effectiveness of internal control

Internal Control: Performance Audits: Spring 2018 Advisory Council Discussion (continued)

- Develop new graphic to illustrate the performance auditor's internal control responsibilities

New Requirements for Addressing Waste: 2017 Exposure Draft

- 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: 2017 Exposure Draft (continued)

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

Waste and Abuse: Spring 2018 Advisory Council Discussion

- Eliminate requirements for reporting waste and abuse
- Add application guidance stating that evaluating internal control in a government environment may include consideration of internal control deficiencies that result in waste or abuse

Standards for Reviews of Financial Statements: 2017 Exposure Draft

- 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

Standards for Reviews of Financial Statements: Spring 2018 Advisory Council Discussion

- Rearrange chapter layout so reviews of financial statements are in their own section to better distinguish from reviews conducted under attestation standards

Management Assertions: 2017 Exposure Draft

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

Management Assertions: Spring 2018 Council Discussion

- No significant change in this requirement

Where to Find the Yellow Book

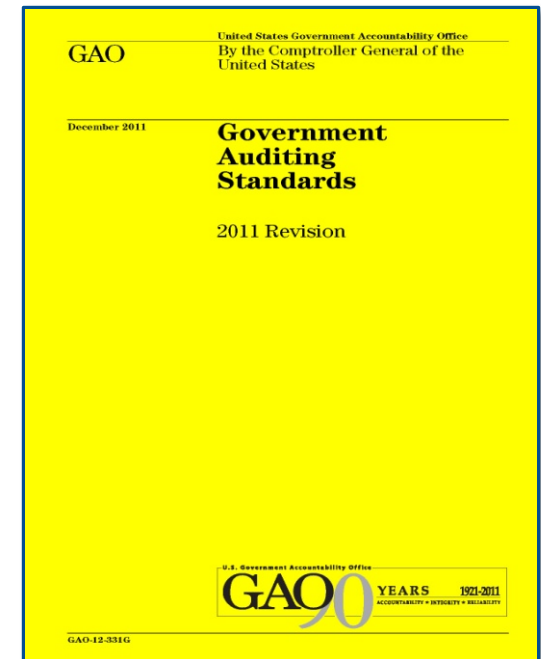
- The Yellow Book is available on GAO's website at:

www.gao.gov/yellowbook

- For technical assistance, contact us at:

yellowbook@gao.gov

or call (202) 512-9535



Thank You

Questions?